PART 1922 - APPRAISAL

Subpart C - Appraisal of Single Family Residential Property

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PART 1922 - APPRAISAL

Subpart C - Appraisal of Single Family Residential Property

§1922.101 General.

This subpart prescribes the policies and procedure for appraisals in connection with making and servicing Single Family Rural Housing (RH) loans on fee simple owned nonfarm and small farm real properties, and on leaseholds on nonfarm and small farm real properties. Property will be appraised for market value. In no case will an appraisal be made without inspecting the property and, when applicable, reviewing all plans and specifications for proposed improvements to the site.

§1922.102 Definitions.

Appraiser. A Farmers Home Administration (FmHA) employee or an individual contracted with, as authorized by RD Instruction 2024-A, in accordance with Exhibit C of this subpart may appraise a single family housing property. (Revised 07-21-93, PN 209.)

Appraisal report. An appraisal report is a supportable, defensible, written report as of a specific date by an appraiser setting forth an estimate of the value of a property, along with documentation supporting the value estimate. The basic principles and methods of appraising real estate outlined in Exhibits A, A-1, B, C, and D to this subpart will be followed in making appraisals.

(1) A completed appraisal report contains: (Revised 01-27-93, PN 199.)

(i) The "Uniform Residential Appraisal Report," which is the equivalent to Form RD 1922-8, hereafter referred to as Form RD 1922-8, completed in accordance with the Forms Manual Insert (FMI), for all appraisals made under this subpart.

(ii) Market data on comparable sales of similar properties in the Sales Comparison Analysis section of Form RD 1922-8. Use three comparable sales if available.

(iii) Form 1007, "Square Foot Appraisal Form," when appraising proposed or existing properties under 1 year of age, or when the estimated market value of a property is based on the cost approach.

(2) Types of appraisals . The County Supervisor when making a request for a contract or fee appraisal will indicate the purpose of the appraisal such as loan making, foreclosure sale, etc. (Revised 01-27-93, PN 199.)

(i) Appraisals for loan making purposes (new construction/existing dwellings requiring development) and the sale of repaired inventory property will be made on an "as developed/improved" basis. (Revised 01-27-93, PN 199.)

(ii) Appraisals for loan making purposes (existing dwellings requiring no repairs), loan servicing, acquisition of inventory property, and the sale of unrepaired inventory property will be made on an "as is" basis.

(iii) Appraisals being made when repairs are planned may be on an "as is" basis and contain an "as developed/improved" value documented in the Reconciliation section of Form RD 1922-8, included as part of the appraisal. The appraiser will attach as an addendum to Form RD 1922-8 the itemized list of repairs, prepared either by the appraiser or the County Supervisor in accordance with §1922.105 (c) of this subpart, indicating the cost to repair and the contributory value of each repair item. In estimating the contributory value, it should be noted cost does not always equal value and in some cases, several individual repair items must be considered in the aggregate before they are recognized by the general real estate market as contributing to value. This addendum must support any difference between the "as is" and the "as developed/improved" values. In the case of inventory property, the appraisal will be reviewed at the time the property is listed/posted for sale to see if the appraisal accurately reflects the current market value of the property. (Revised 01-27-93, PN 199.)

Cost calculation manual . A manual or handbook published on a national basis, approved by the National Office, that is used to estimate the depreciated replacement cost of single family residential structures and other site improvements.

Depreciation . A decline in market value of dwelling and related facilities from the time improvements were constructed to the time an appraisal is made. Depreciation may result from:

(1) Physical deterioration, such as wear and tear, etc., to a structure and other site improvements that are subject to deterioration.

(2) Functional obsolescence, such as inadequacies or overadequacy due to size, design, style, age; changes in taste of the general public; the high cost of heating and cooling dwellings that cannot economically be made energy efficient, etc.

(3) Location/Economic obsolescence is caused by forces external to the property; such as changes in use, or poorly maintained properties in the neighborhood, decline in area employment, noise or other pollution, a decline in the purchasing power of potential buyers, etc.

Depreciated replacement cost . The calculated cost less deductions for depreciation of replacing a structure of equal utility that conforms to present day standards. Replacement cost may be significantly less than the cost of reproducing an older outdated structure or a new structure that is overbuilt or does not conform to current market standards.

Economic life . When applied to single family dwellings, the normal time a dwelling is expected to remain suitable as a residence, taking into consideration a normal depreciation rate. This may vary significantly from the remaining physical life of the structure. Economic life minus effective age equals remaining economic life.

Effective age . The age of the dwelling taking into account any remodeling or refurbishment that has been accomplished or is planned to take place immediately and deterioration or abuse of the property that will not be included in any planned improvements. Effective age usually will be less than actual age when significant refurbishment has taken place, or greater than actual age if the property has deteriorated more than typical properties of the same age.

Final reconciliation/estimated value . The final estimate of market value after weighing the relative significance, supportability, and reliability of the market data and cost approaches; the most probable price a property should bring, as of a specific date, in a competitive and open market, assuming the buyer and seller are prudent, knowledgeable and the price is not affected by undue stimulus such as forced sale or loan interest subsidy.

Leased fee value . This is the value of the landlord's rights to the property being leased.

Leasehold value . This is the value of the tenant's rights under the lease that can be transferred or sold to another party.

Living area . Living area will include only finished area as determined by the exterior dimensions of the dwelling. (Revised 10-27-95, SPECIAL PN.)

Reproduction cost . The estimated cost of reproducing an exact duplicate or replica of a structure using the same materials, construction standards, quality of workmanship, layout, design, and incorporating all the deficiencies and superadequacies (functional obsolescence) of the subject structure. Reproduction cost less the sum of physical depreciation, functional and economic/locational obsolescence equals depreciated replacement cost.

Residential property . The site and all improvements to the site, including the dwelling.

§1922.103 Authorities .

(a) Contract appraiser . An individual contracted with, as authorized by RD Instruction 2024-A, in accordance with Exhibit C of this subpart may appraise a single family housing property. Contract appraisals will be completed in accordance with this subpart and RD Instruction 2024-A. (Revised 07-21-93, PN 209.)

(b) RHCDS employees . Employees whose job descriptions contain appraisal responsibilities, after receiving the required training and written delegation from a State Director, are authorized to make appraisals. The employee's immediate supervisor will recommend the employee be designated to make appraisals after determining he or she has:

(1) Satisfactorily inspected at least two properties not previously used by Rural Housing and Community Development Service (RHCDS) for sales comparison and completed corresponding Forms RD 1922-12, "Nonfarm Tract Comparable Sales Data," for those comparables; and

(2) Satisfactorily prepared at least two appraisals on Form RD 1922-8 and Form 1007.

§1922.104 Influences on value .

(a) Factors to be considered .

(1) Location . Location is one of the greatest influences on real property value. A location near railroads, commercial or industrial plants, landfills, cemeteries, airports, etc., or too distant from employment opportunities may adversely affect a residential property value, whereas a location in a quiet residential area near good employment, schools, shopping, public services, etc., may enhance property value.

(2) Supply and demand . If the market area has an oversupply of residential properties and/or building sites for sale or depressed economic conditions exist, a negative effect on property value will normally be observed. When the supply of residential properties or suitable building sites is short and/or the general economy is good, a positive effect on residential property values may be observed.

(3) Replacement cost . Cost does not directly create or maintain value; however, cost does have an influence on value and will be considered when estimating value of improvements to a site.

(4) Highest and best use of the site . The site and the improvements to the site will be valued separately. However, for loan making purposes, the value estimate of the site will not exceed its value as a residential site, based on market data on actual sales of similar residential sites in the area. For other than loan making purposes, when an alternate use of the site indicates a site value greater than the value of the improved site, the higher value will be used.

(5) Accrued depreciation . This is a combination of physical deterioration, functional and economic/locational obsolescence.

(6) Use restrictions . Easements, rights-of-ways, subdivision covenants, zoning, and deed restrictions, etc., affect value.

(7) Utilities . Availability, reliability, quality of utility service and cost to obtain suitable water supply, sewer, gas, electrical and other utility services affect value.

(8) Taxes and assessments . Tax rates and other public assessments as compared to rates in other similar neighborhoods in the market area affect value.

(9) Homogeneity . Similarities to other properties in the neighborhood; for example, a property overbuilt for the neighborhood in an older or deteriorating neighborhood may have a value less than its replacement cost.

(10) Site. Topography, size, shape, drainage, general suitability of the site and site view for residential purposes and site development in addition to the dwelling must be considered in estimating the value of the site.

(11) Financing . Terms, availability of funds, interest rates and cost of obtaining long-term loans, including but not limited to RHCDS RH loans, have an influence on the value of property.

(12) Construction . Living area, room arrangement, garages, porches, built-in equipment, storage, parking facilities, basement, quality of construction, and "value in use" of certain energy efficient and/or solar items affect value. Exhibit D of RD Instruction 1922-B will be used when estimating value in use of any energy-saving component. (Revised 10-27-95, SPECIAL PN.)

(13) Street improvements . Street improvements adjacent to the property and the type of roads leading to the neighborhood affect value.

(b) Factors not to be considered .

(1) Amount of existing liens or debts secured by the property;

(2) Proposed sale price or bid amount to build the structure;

(3) Amount of FmHA loan requested;

(4) Sex, age, race, national origin, color, religion or handicap(s) of residents of the neighborhood or community; and

(5) Appraisals for voluntary conveyances and foreclosure will not reflect any consideration of a forced sale, unpaid balance of FmHA loan(s), other liens against the property, or cost of acquisition.

§1922.105 Steps preliminary to writing the appraisal .

The appraisal will be made only when sufficient information has been developed to enable the appraiser to properly evaluate the property.

(a) Basic information on property . As a minimum, the property legal description, address, plat, subdivision and/or neighborhood map, tax information, recording information, and complete plans and specifications of any planned improvements should be obtained by the appraiser prior to beginning the appraisal.

(b) Analysis information . The appraiser will consider general economic conditions of the market area and obtain additional information which he or she considers pertinent to the appraisal. The appraiser should examine the community and the neighborhood before inspecting the site.

(1) Community analysis . The appraiser needs pertinent information about the history and growth of the community. The collection, analysis and interpretation of community data helps the appraiser to determine the relative competitive position of a property in the total market. A knowledge of how and why the community grew and an understanding of its economic trends enables the appraiser to better understand the factors influencing the value of real property. The community factors to consider include:

(i) population - increase or decrease;

(ii) geography - i.e., topography, etc.;

(iii) roads and public transportation service;

(iv) employment wages and other income sources;

(v) medical facilities;

(vi) schools;

(vii) volume of new construction;

(viii) number of homes (new and old) being offered for sale in the market area;

(ix) fire and police protection;

(x) availability of suitable building sites;

(xi) shopping facilities; and

(xii) other financing available in the area.

(2) Neighborhood analysis . Neighborhoods are divisions or sections of a community or city which are usually homogeneous in some respect. Neighborhoods customarily pass four stages of life: building, static, declining, and rebuilding. In measuring the desirability of neighborhoods, features such as the number of unoccupied homes, age and condition of nearby properties, etc., should be studied and compared.

(3) Site analysis . The importance of location cannot be overemphasized. The location of a community, city, or neighborhood to available job opportunities, places of worship, schools, medical care, shopping, etc., is as important as the location of the property within its own neighborhood. Other factors to consider about the site are:

(i) Frontage, width, depth, shape of the lot,

(ii) total usable area of the lot,

(iii) lot topography,

(iv) natural hazards, such as flood plains, sink holes or localized flooding,

(v) the presence of hazardous waste, including underground storage tanks. (The cost of removal or repair must be determined before the appraisal can be completed),

(vi) view from the site, and

(vii) utilities available.

(c) Inspection of the property, except Guaranteed Housing loans . The County Supervisor may make a suitability determination without an inspection if he/she has sufficient knowledge of the property. The County Supervisor may inspect the property to determine suitability and prepare an itemized list of repairs prior to requesting an appraisal from a contractor or FmHA staff appraiser. If the inspection reveals the property cannot be made suitable for the FmHA program, an appraisal will not be made except for inventory property. After receiving the request, the appraiser will inspect the site, and all improvements to the site, at such time and under such conditions that the entire property can be adequately evaluated. If instructed to, the appraiser will provide an itemized list of repairs and the estimated cost to repair these items. In the case of planned improvements, a thorough evaluation of the plans and specification of the improvements to be made, should be completed to determine if the improvements are suitable for the site and any existing improvements. (Revised 01-27-93, PN 199.)

(1) The appraiser, after locating and identifying the property, must check boundary lines against the plat and legal description. This is essential in order to be certain the improvements to the site are totally on the site and do not encroach on adjoining property.

(2) When inspecting an existing structure, the appraiser will determine the condition of the structure, and estimate depreciation and cost to repair individual items that are determined to need repair or replacement in order for the structure to meet minimum property requirements and FmHA thermal standards. The appraiser will determine the total living area, storage, basement, and parking area by actual measurements made during the inspection of an existing structure; for proposed construction, measurements will be made from the building plans. (Revised 01-27-93, PN 199.)

(3) If the house is under construction or less than one year old and an individual water or sewage system is involved, include a certification by the builder that the house and any water and waste disposal systems have been or will be built or installed in accordance with the local building codes, plans and specifications. Evidence of approval by health authorities having jurisdiction in the area also will be included. If the house is one year or more old, the appraiser will require approval of individual water and/or sewage systems by health authorities or, in a case where no State or local health authority exists, by a person or firm qualified to determine the adequacy and safety of such systems.

(4) The date the real property is inspected will be the date placed in the reconciliation section of Form RD 1922-8. (Renumbered 01-27-93, PN 199.)

(5) Photographs of the property will be attached to Form RD 1922-8. Photographs will provide front, rear and side views of the property, including the "street appeal" aspects of the property. (Renumbered 01-27-93, PN 199.)

§1922.106 [Reserved]

§1922.107 Depreciation .

Adjustments to reproduction cost and the sales comparison analysis that reflect a decrease in value of a structure or other improvements to the site due to physical deterioration and/or functional and external obsolescence will be determined. Land and improvements to the site such as wells, etc., do not depreciate but may change in value.
(Revised 01-27-93, PN 199.)

(a) Adjustments for depreciation .

(1) Physical depreciation . Adjustments to the cost approach and the sales comparison analysis that reflected an decrease in value of a structure or other improvements to the site due to physical deterioration will be determined. Physical depreciation may be determined using the Marshall and Swift residential cost handbook, Section E, Depreciation. These depreciation tables are based on an extended life theory which encompasses a remaining life and effective age approach. The effective age and the typical expectancy rate are used to determine the overall physical depreciation percentage. (Revised 01-27-93, PN 199.)

(2) Functional obsolescence . Any design or feature of a dwelling that is not acceptable to the typical buyer in the market area will be identified by the appraiser on the inspection visit to an existing dwelling or in the review of plans and specifications of a dwelling to be built. All items affecting the livability and marketability of the property will be recorded in the appraisal report. The appraiser will measure the value difference in the subject property caused by functional obsolescence by comparing properties that have sold that do meet the livability and marketability demands of the typical purchaser. The appraiser must be familiar with the taste and desires of the typical purchaser in the market area in order to support the estimate of value loss due to functional obsolescence of a property. Exhibit A of this subpart outlines the parts of a property and design items to consider when estimating functional obsolescence. (Revised 01-27-93, PN 199.)

(3) External obsolescence . Any factor outside the property boundary that causes real property to be worth less because of its location is an external obsolescence factor. The community, neighborhood and site analysis will form the basis for making this estimate. The actual dollar adjustment estimate for external obsolescence will be based on a comparison of sales prices of similar properties in similar and nonsimilar locations. Exhibit A of this subpart explains market data extraction of external obsolescence and sources of economic trend data. (Revised 01-27-93, PN 199.)

(b) Accrued depreciation . The sum of physical depreciation, and functional and external obsolescence equals accrued depreciation and will be reflected in the sales comparison approach and cost approach. (Revised 01-27-93, PN 199.)

§1922.108 Appraisal of leasehold estate .

Prior to making an appraisal for loan making purposes involving a leasehold, the appraiser must determine if the lease complies with the requirements of §1944.15 (a)(5) of Subpart A of Part 1944 of this chapter. The value of the leased fee will not be estimated under this subpart.

(a) Property as improved . Estimate the market value of the property "as improved" as though the property was owned under a good and marketable fee title. Estimate the market value of the site on an "as is" basis as if no improvements exist or are to be made or placed on the site and subtract from "as improved" property value.

(b) Rent. Estimate the amount of rent that customarily is paid in the area for similar sites leased under similar terms.

(c) Lease acquisition cost. Where a lease acquisition cost is involved, determine the total annual leasehold cost of the site as if vacant. In making this determination the appraiser will consider the amount of annual rent to be paid under the lease plus the annual loan payment required on the portion of the RH loan used to acquire the leasehold site. The sum of these should not exceed the amount an applicant would need to pay on a loan to buy a similar site with fee simple title.

Example: Present market value of the site as if owned with fee simple title is $5000. Amortization factor for 33-year loan at 12 percent interest with monthly payments is .0102 per $1.00 of loan.

$5000 X .0102 = $51/month
$51 X 12 mos. = $612 (annual payment on the site if owned with fee simple title)
Lease acquisition cost is $2000. Amount of annual rent is $300
$2000 X .0102 = $21/mo. (rounded up to nearest dollar)
$21 X 12 = $252 annual payment on leasehold acquisition fee.$252 plus $300 (annual rent) equals an annual leasehold cost of $552.

Since the total annual cost of the leasehold interest in the site in this example is less than what the annual payment would be on the site as if owned with fee simple title, the $2,000 lease acquisition fee would be reasonable. The lease acquisition "value" will be documented on Form 1007 and would be adjusted downward if the total annual cost of the leasehold exceeded the annual cost of an identical fee simple owned site.

(d) Security value of leasehold. The maximum security value of a leasehold interest (recommended market value of the leasehold) which will be documented on Form 1007, including improvements to be made to the leasehold site, will not exceed the market value of the improved property less the "as is" value of the site as if owned with fee simple title, plus the market value of the leasehold site.

EXAMPLE:

Market value of the property "as improved" as if owned with fee title	$40,000
Less market value fee title owned site "as is"	$ 5,000
Market value of improvements	$35,000
Acquisition Cost of leasehold site (unimproved)	$ 2,000
Maximum security value of leasehold property "as improved"	$37,000

Complete Form RD 1922-8 with a full explanation as to how the value estimates were arrived at and what factors were considered in estimating the maximum security value for a loan being made on the leasehold.

§1922.109 Writing the appraisal . (Revised 01-27-93, PN 199.)

In order to analyze and evaluate the influence on the value of a property by the factors outlined in this subpart and Exhibit A of this subpart, the following steps, as a minimum, will be followed by the appraiser.

(a) Sales comparison approach . Collecting, verifying and analyzing sales of comparable properties in the market area will provide a basis for completing the Sales Comparison Analysis section of Form RD 1922-8. Information on each comparable sale will be recorded on Form RD 1922-12, after inspecting the property. A photograph of the comparable sale will be attached to Form RD 1922-12. Comparable sales less than 1 year old with nonsubsidized financing from lenders other than FmHA should be used in the market data analysis. A National Office exception may be granted on a quarterly basis, to permit the use of comparable sales financed by FmHA, provided, the State Director certifies in writing that nonsubsidized financed comparable sales are not available within a specific geographic location within the State. Documentation to support a National Office exception request will include a detailed analysis of the real estate market situation from the County Supervisor, District Director, and the State Office Single Family Housing Appraisal Trainer. Only "arms length" sales will be used. Market value of the site should be obtained by using comparable sales data for other building sites sold in the area. Dollar adjustments for differences in financing concessions, time of sale, location and physical characteristics will be made in accordance with the chronological order of adjustment categories identified on Form RD 1922-8. All adjustments to comparables will be based on paired sales extraction, cost estimates, and market surveys of value differences. The cost estimates and market survey methods of making adjustments to comparables will be used only when data extracted from paired sales cannot be obtained. Comparable sales closest to the subject are the most desirable and the best indicator of value, but if comparable sales in the immediate area are nonexistent, the distance may be increased to the nearest similar communities where comparable sales have occurred. All adjustments to comparables will be based on market extraction, unless the data is not available, then cost estimates and market surveys of value differences may be used.

Written explanation and documentation to support adjustments should be available when the appraisal reviewer requests an explanation for an adjustment. An appraisal reviewer may want to request documentation when an individual adjustment exceeds 10 percent of the comparable's sale price or when the net adjustments exceed 15 percent or the gross adjustments exceed 25 percent of the comparable's sale price.

(b) Cost approach . The Marshall and Swift Residential Cost Handbook square foot method will be used to complete Form 1007 for all proposed and existing properties under 1 year of age or when the estimated market value of a property is based on the cost approach. The cost approach will provide a comparison to the sales comparison approach in determining the property value of proposed and existing properties under 1 year of age. The appraiser may use value determined by the cost approach for these properties if higher than the sales comparison approach, providing supporting documentation justifying the value is attached to Form RD 1922-8. The cost approach will be considered for other properties in accordance with the Uniform Standards of Professional Appraisal Practices (USPAP). In all cases, the Estimated Reproduction Cost -New- of Improvements section of Form RD 1922-8 will be completed in accordance with the FMI.

(c) Income approach . The income approach to value may be used in conjunction with non-program inventory property (see Exhibit B of this subpart) and may be considered, but not normally used to determine value when appraising program properties for loan processing activities.

§1922.110 Final reconciliation/estimated value .

(a) Indicated value by the sales comparison approach . The appraiser will make an estimate of value by the sales comparison approach after reviewing the similarity of each comparable sale to the subject. The final indicated value by sales comparison approach on Form RD 1922-8, will be tempered by the degree of similarity and reliance placed on each of the different comparable sales and will not be an average of the three indicated values.

(b) Indicated value by cost approach . The appraiser will enter the value indicated by completing the cost approach in the Estimated Reproduction Cost -New- of Improvements section of Form RD 1922-8. (Revised 01-27-93, PN 199.)

(c) Indicated value by the income approach . The appraiser may enter the value indicated by the income approach in the Indicated Value by Income Approach section of Form RD 1922-8. This approach may be used and is considered an optional approach for use in accordance with this subpart. (Revised 01-27-93, PN 199.)

(d) Final reconciliation/estimated market value . The estimated market value in the Reconciliation section of Form RD 1922-8 will never exceed the higher of the values indicated by the sales comparison approach or the cost approach and may exceed the lower of the two indicated values only when the appraiser includes justifying and supporting documentation in the appraisal report. The appraiser will enter the estimated market value in the Reconciliation section of Form RD 1922-8. The appraiser will justify and support the reconciled estimate of market value on Form RD 1922-8, or attach an addendum, after analyzing the appropriate approaches to value utilized in the completion of the residential appraisal assignment. (Revised 01-27-93, PN 199.)

(e) Valuation of buildings for insurance purposes . The value of buildings for insurance purposes will be the amount indicated on Line 29 of Form 1007 for proposed and existing properties less than 1 year of age. For properties over 1 year the value will be the depreciated value of improvements from the Estimated Cost -New- of Improvements section of Form RD 1922-8. (Revised 01-27-93, PN 199.)

§1922.111 Abbreviated appraisal and revising existing appraisals .

A complete new appraisal will be made for each property requiring an appraisal except:

(a) Abbreviated appraisal . An abbreviated appraisal may be made for property to be built when:

(1) The property being appraised is identical, except for minor differences, with a property appraised not more than 90 days prior to the date of the abbreviated appraisal and is located on an equally desirable site within the same subdivision. A copy of all appraisal documents from the first appraisal, "the master appraisal," will be attached to, and will become a part of Form RD 1922-8, for the abbreviated appraisal.

(2) All items on the abbreviated appraisal that differ from the property being appraised, such as property address, legal description, applicant's name and reconciliation/estimated value will be completed along with a narrative explanation of any adjustments made and any differences in final value estimate.

(b) Revised appraisal . An existing appraisal may be revised when an accurate estimate of present market value can be determined without making a complete new appraisal and the following conditions exist:

(1) The appraisal being revised is not more than 1 year old;

(2) Adequate narrative documentation attached to support the revised estimate of value;

(3) Substantial changes have not been made to the property; and

(4) Property had been inspected by the appraiser.

§1922.112 Other acceptable appraisals .

A Housing and Urban Development/Federal Housing Administration (HUD/FHA) or Veterans Administration (VA) appraisal no more than 3 months old, that was paid for by the FmHA applicant, may be accepted and the market value used for loan making purposes. The house must be program suitable and must not need additional repairs, other than those noted in the HUD/FHA or VA appraisal, to make it program eligible. The appraisal must be delivered directly from the appraiser to FmHA. (Added 01-27-93, PN 199.)

§§1922.113 - 1922.150 [Reserved]

Attachments: Exhibits A, A-1, B, C, and D.

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Single Family Residential Appraisal Manual

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Single Family Residential Appraisal Manual

Part I. General.

This manual is to serve as a guide for FmHA employees in appraising single family residential properties. The final value estimate in an appraisal report must be supportable and defensible and must be based on factual data and sound judgment by the appraiser. The appraiser must use acceptable terminology in all narrative documentation and follow sound principles and practices that have been proven and accepted in the appraisal field. One must never become a theorist and fail to apply logic and good judgment in making conclusions when estimating the value of a property. When the appraiser understands the proper concepts and theories of appraising, he/she should be able to support all judgment decisions and estimates in an appraisal report with data extracted from arms length sales of similar properties in the market area and realistic depreciated replacement cost estimates. This manual will explain the methods of adjusting comparable sales, estimating depreciated replacement cost, collection of sales data, market analysis and inspecting a property, that are accepted by the major appraisal organizations.

Part II. Need for understanding How the Real Estate Market Functions.

An appraisal of real estate is an estimate of the value of a certain parcel of land with all existing and/or planned improvements thereon as of a specific date. The value of a certain parcel of real estate is determined by buyers and sellers of similar parcels with similar improvements in the market area and not by the appraiser. The job of an appraiser is to collect data on properties that have sold and through the process of market data comparison and analysis, apply that data to property being appraised (subject property) and estimate the value of the subject property. An estimate of depreciated replacement cost of the subject property is used as a second approach in the appraisal process. Because of the large varieties of sizes, designs, location differences and quality of properties, it is not likely that an appraiser will find two or more identical properties. For this reason, the appraiser must be trained in making adjustments to comparable sales that will lead to a logical conclusion of a final market indication of value of the subject property. The final estimate of value must always be based on actual sales of comparables, valid cost, and depreciation estimates and tempered by sound judgment by the appraiser. The appraiser must understand that a purchaser would usually pay no more for an existing improved parcel of real estate than he/she would have to apply for a similar unimproved Parcel of real estate and construct improvements with equal utility to the property being appraised. For this reason, when appraising an improved property, the appraiser must always estimate the value of the site as if vacant, then estimate the depreciated replacement cost of all existing and planned

improvements to the site as if they were to be constructed new using modern materials. When an appraisal is being made of a vacant site to be improved, the appraiser must estimate the cost of the planned improvements in order to determine if the bids to make the improvements are reasonable and if the total cost of the improved property is in line with what similar properties are selling for in the area. Whether an appraisal is being made on an improved or unimproved property, the value of the site, as if vacant, must be based on sales of vacant sites in the area that have sold. Comparable sire sales must be adjusted to the property being appraised to account for differences in location, size, desirability, etc.

Buyers and sellers of residential properties are influenced by many different aspects of a particular property. Different buyers have different opinions, reasons, and constraints in buying a property. For these reasons, sales of almost identical properties in different areas may vary. Once the appraiser understands how the real estate market functions and why properties vary in value, the methods of making adjustments to comparable sales, estimating replacement costs, and depreciation are easier to understand.

Part III. Residential Neighborhood Analysis .

A residential neighborhood is defined as a portion of a community where there is a homogeneous grouping of homes and inhabitants. The inhabitants generally consist of residents with similar levels of incomes and interests. Neighborhood boundaries may consist of well defined natural or man made barriers, such as a major highway, river, or a distinct change in land use. In many cases, adjoining neighborhoods will have no distinct boundary. For example, a neighborhood of 1,800 square feet to 2,000 square feet expensive homes may border a neighborhood with much smaller homes. Neighborhood analysis begins with identifying the neighborhood boundaries. When comparable property data from property sales in another neighborhood is used, the appraiser will comment in the narrative documentation portion of the appraisal on any value difference caused by the difference in location. There may also be differences in values within the same neighborhood due to site features that enhance or detract from the value of a specific property.

One of the most difficult jobs of the appraiser is to measure change in value of a property due to economic obsolescence; this is the influence on value of a property from factors outside its boundaries. In order to support an estimate of economic obsolescence, the appraiser must first analyze the internal physical neighborhood features, then factors external to the neighborhood, and document the reasons for any value differences.

This forms the basis for supporting the estimate of economic obsolescence in the accrued depreciation adjustment for location difference in the market data analysis section of Form RD 1922-8, "Uniform Residential Appraisal Report." This same amount of adjustment should be added to the depreciation section, Line 29, on Form 1007, "Square Foot Appraisal Form" in the replacement cost approach.

The depreciation tables in Section E of the Marshall and Swift Residential Cost Handbook or any other similar publication cannot be used to assist in estimating value loss due to economic obsolescence. The Marshall and Swift Section E tables provide a guide for estimating the physical deterioration and functional obsolescence of improvements to the site, which when combined with economic obsolescence equals accrued depreciation on line 29 of Form 1007.

A modest new home built according to government minimum property requirements and FmHA thermal standards would not have any accrued depreciation due to physical deterioration; however, the appraiser may observe depreciation due to economic and functional obsolescence.

A. Internal Physical Neighborhood Features .

Properties in a neighborhood may vary in value due to site desirability and location within the neighborhood. Measuring economic obsolescence due to a property's location within its neighborhood can be accomplished when data from property sales in a particular area of the neighborhood is compared with data from similar property sales in another area of the neighborhood that have more or less desirable location features. An example would be a property on a heavily traveled street versus a similar property on a quiet dead end street. Sales data meeting this description are seldom available and the appraiser must rely on past experience and good judgment to document why a similar property in a neighborhood varied in value due to its location within the neighborhood. Just as different dwellings can have several internal features that cause their values to vary, so do neighborhoods. The appraisal process involves the analysis of these internal physical neighborhood features in order to estimate their effect on property values in a particular neighborhood. When inspecting the neighborhood, the appraiser must be particularly observant of changes in land use, extent of land development, access to schools, shopping, public street improvements, and available transportation, hazards such as susceptibility to flooding, ages, condition and style of dwellings, maintenance and care of the homes, vacant homes, crime, vandalism, tenant occupied homes, overall general appearance, and desirability of the neighborhood. The appraiser's documentation in the appraisal report should adequately describe such neighborhood features and their influence on the value of the subject property. The racial or ethnic makeup of a neighborhood will not be considered in neighborhood analysis and the appraiser will make no reference to race or code phrases as proxies for race in the

appraisal report. For an appraiser to consider the racial makeup of the neighborhood as having an influence on property values is called "racial redlining" and is illegal under federal law.

Deed restrictions, subdivision covenants, easements, etc. may affect property values. These factors are not always obvious and may require research by the appraiser from the public records. Title opinions from designated attorneys on other properties financed by FmHA in the same neighborhood are an excellent source for this information. To determine if these types of restrictions affect the value of a property, the appraiser must make a comparison of property sales prices in areas with restrictions versus areas without restrictions.

B. Features External to the Neighborhood that Influence Property Values.

Although a neighborhood's internal physical features cause values to vary and must be analyzed by the appraiser, neighborhood analysis also involves observing and studying several factors that are outside the boundaries of the neighborhood. Three factors that should be considered are:

1. Physical (external to the neighborhood). These factors are almost always apparent to the appraiser. Determinants, such as nearby industrial plant odors, noise from nearby heavily traveled highways, airports, etc., affect residential property values. The change in value, economic obsolescence, due to these factors can be measured by comparing the sale prices of similar properties in a neighborhood area that does not have the detriment to a neighborhood area that has one or more of these types of undesirable features.

2. Economic/Financial Factors. The neighborhood's location in relation to available long term financing for the property has an influence on values. This change in property value can be measured if a change in the amount of available financing in a certain area causes a change in property sale prices. A decline in availability of financing may be indicated by a lengthening of time required for properties to sell, thereby increasing the number of properties on the market at any one time. This increase in supply may result in sellers being willing to sell at lower prices. The amount of decline in price due to this factor is the amount of economic obsolescence due to financing. It is also possible to measure the effect on value due to lack of available financing by comparing sales in areas where a noticeable difference is observed in availability of financing.

This should not be confused with the estimate of difference in property values due to difference in interest rates charged on long term loans, cost of obtaining long term loans, or loan to value ratios even though they are closely related to availability of financing. Accounting for these differences is discussed in the market data adjustment section of this manual.

An excess or shortage of available building sites or properties offered for sale and vacant homes, also influences property values. Observations made during the neighborhood analysis of these factors should be recorded are considered in the appraisal.

When unemployment rates in an area are high, property values in all neighborhoods may be affected. The appraiser should stay abreast of the local and national trends by reading publications which analyze changing economic conditions. The appraiser can evaluate the strength of the local economy through economic base analysis when one dominant industry forms that base for all economic growth in the area. Changes in an industry that is providing the major number of job opportunities and setting the wage rates in a community affects the purchasing power of the potential buyers of homes. This is most evident when a major industry closes down and the local population is forced into traveling an undesirably long distance to find employment. Almost immediately the housing market may become depressed and a decline in residential property values observed.

Regional planning commissions and other State and federal Agencies publish data on local, regional, and National trends. Data from these sources may enable the appraiser to document the strength or weakness of the local economy. Sequential analysis may also be used for real estate markets to identify trends in real estate values.

Consideration should be given to the opinions of informed people who are familiar with real estate values in the area, such as; real estate brokers, builders, private and cooperative lenders, and business leaders to determine the likelihood that there will be a demand for housing in the area in the foreseeable future.

3. Political/Governmental - Public Services available in the neighborhood affect property values. Site values are enhanced when adequate public services, such as; water, sewer, and natural gas are available at a reasonable cost when compared to sites without these services. However, property values may be affected adversely when high taxes, assessment charges, and utility rates are imposed as compared to a neighborhood with lower public service costs.

Zoning by local governmental bodies may protect property owners from changes in land use that would cause a decline in value of existing properties. When a residential neighborhood declines due to lack of maintenance of older homes and the governmental body decides to change the zoning from single family residential to multifamily or commercial, property values may change. The appraiser must stay abreast of any proposed zoning changes that would affect property values in a neighborhood.

C. Basic Neighborhood Description .

An appraisal will better identify and support the appraiser's reasoning and judgment in the final value estimate when maps are included in the appraisal report showing location of the subject and comparable properties in relation to each other and to desirable and undesirable features in the area. County and/or city maps are available in most areas. Each comparable and the subject property locations are to be designated on the map.

Part IV. Site and Site Improvement Analysis .

A. Highest and Best Use of the Site.

Highest and best use is the most reasonable and most probable use that will support the highest present market value of a site "as is" on the date the site is appraised.

1. Vacant building sites .

A vacant site located in an area zoned only for residential single family dwellings would dictate the site's highest and best use as a residential site until the zoning and/or market conditions trended to an alternate use, such as multifamily, commercial, etc.

A vacant site within an established neighborhood of single family dwellings may dictate that the highest and best use of the site is for a single family dwelling, even if zoning did not exist in the community. However, if the neighborhood was made up of older houses that were not properly maintained, the area may be in an irreversible decline and be in the process of giving way to commercial or multifamily housing as the highest and best use of a vacant site. In an area of scattered single family houses or with a mixture of single family houses, multifamily housing, commercial properties, and no zoning, the appraiser would have to make a determination as to which purpose the vacant site could best be used and, if in fact there was a demand for that use in the area. For example, the appraiser determines the site is suitable for a fast food store, but the area is already saturated

with that type of business and there is a shortage of sites for single family houses in the area, he or she may decide the highest and best use to be for a single family dwelling. All alternate uses must be considered before the appraiser could support his or her final opinion as the highest and best use of the vacant site in this example.

2. Developed Site .

The highest and best use of a developed site is usually dictated by its present use. However, when the structure or development on the site has deteriorated to the point that it can no longer be used for its original purpose or there is no longer a demand for that type of development in the community and an alternate use of the site would increase the property's "as is" present market value, the highest and best use of the site would change. For example: When the site contains a structure or development and the existing use will continue, the highest and best use would be the same as existed when the appraisal is made unless the land value in an alternate use would exceed the present market value of the site and the existing structure or development.

3. Deciding on highest and best use .

When appraising a site, whether developed or undeveloped, for single family housing loan making purposes, the appraiser will estimate the value of the site no higher than its value as a single family residential site. If the site is determined not suitable as a residential site, no appraisal for loan making purposes will be made. If an RH acquired property site or property to be taken into inventory is determined to have an alternate use that would cause its value to be greater in the alternate use than as a residential site, including any existing improvements, the appraiser will select the highest and best use that will result in the highest inventory property value to the Government. Care should be taken to be sure the alternate use would nor adversely affect neighboring residential properties or conflict with any zoning or use restrictions.

When an RH inventory property is classified as "non program" due to the site being in a flood plain and flood insurance not available, adequate safe potable water supply or sewage disposal system cannot be obtained, etc., the appraiser must determine an alternate use for the site and estimate the site value based on the alternate use. The value of the improvements to the site, in this case, may only have salvage value.

If an inventory property is classified as "non program" in accordance with §1955.103(s), Subpart C, Part 1955 of this chapter, but the site is suitable, the site value estimate will normally be based on a highest and best use as a residential site. The value of the improvements to the site, in this case, must be depreciated to reflect the cost a purchaser would have to incur in order to have the deed restrictions removed and the property made suitable as a residence. Only in extreme cases (where it is not economically feasible or impossible to have the deed restrictions removed) would the improvements to the site be appraised for salvage value.

B. Site description .

All appraisal reports must contain a legal description of the subject property. A survey plat should be attached when available. A copy of all deed restrictions, easements, and zoning requirements should be attached. The appraiser will current on the topography of the land, shape, effective area, and any excess area that would affect the site value. For example: In order to make a steep lot suitable for residential purposes, extra grading may be required which would cause the "as is" value of the lot to be less than a level lot in the same subdivision. Any desirable or undesirable views from the site will also be described in the appraisal.

C. Exterior Inspection of Improvements to the Site .

In addition to a photograph of any improvements to the site, the appraiser will describe such things as style of house, quality of construction, measurements of the dwelling, and the date or the inspection in the appraisal report. A complete list of improvements to be made to the exterior of the structure including roof, siding, window and door, attic ventilation, crawl space, floor joist, and floor insulation should be made during the inspection visit to the property. When appraising a property to be built, only an inspection of the site can be accomplished and decisions concerning the improvements must be made from plans and specifications submitted by the contractor or applicant. However, the appraiser must note the condition and suitability of the site during this visit and any improvements to the site that are not included in the plans and specifications.

D. Interior Inspection of Existing Improvements to the Site .

When making an appraisal as a result of an application to repair an existing dwelling, the appraiser should require a complete description of the planned repairs and cost estimate prior to inspecting the property. During the inspection the appraiser will list any additional repairs to be required and any items that are

considered above modest or not necessary and immediately advise the applicant.

When inspecting any existing property the appraiser will make notes of the conditions observed and estimate effective age. The following parts of the interior of the dwelling as a minimum, should be examined:

1. Ceiling and wall finishing materials
2. Floor covering
3. Suitability of room layout
4. Bathroom fixtures and number of fixtures
5. Heating and cooling systems
6. Utility room
7. Electrical system, lighting fixtures, electrical appliances and ampere rating of entrance panel
8. Plumbing
9. Attic insulation
10. Roofing, bracing, condition of rafters, and decking
11. Stairways
12. Closet size and placement
13. Energy efficient items
14. Special interior features
15. Kitchen cabinets and counter space
16. Basement

During the inspection the appraiser will note any damage from rats, termites, etc., and in cases of older or severely deteriorated dwellings, or functionally obsolete dwellings, whether or not the property is suitable for program financing due to inability to bring the dwelling up to minimum property requirements and standards desired by the typical purchaser in the area.

Part V. Sales Comparison Approach to Value .

After the appraiser has collected and analyzed data described in the preceding four parts to this manual, the next step is to collect and analyze data on sales of properties that have improvements similar to the subject property.

This is the most heavily relied on evaluation method in single family residential appraisals. Cost does not always create value. Value is less than cost when similar properties are selling for a price below the replacement cost. This is observed in a severely depressed market and when a dwelling design does not meet the standards set by the typical home buyers in the market area. An economically distressed area may result from high unemployment, high cost of obtaining long-term loans, high interest rates, a low purchasing power of potential purchasers due to low wages or high

taxes and assessments, and high utility costs. Cost of excessively elaborate items not generally needed or required by typical purchasers, or lack of desirable features of a particular design may also result in cost exceeding value; poor financial management or poor quality design and workmanship by a developer/builder may also result in a cost greater than value.

These are only a few of the reasons that the sales comparison market data) analysis method of estimating value of residential properties is considered the most reliable approach in the final value estimate.

A. Three principles form the basis for sales comparison market data) analysis. They are:

1. The principle of anticipation, which affirms that a purchaser desires to receive future benefits from owning a property; such as, pride of ownership, satisfaction with design and other amenities, appreciation in value of the property rights not afforded a tenant, etc., that warrant paying a certain price for the property, i.e., present worth of all future benefits.

2. The principle of substitution, which assumes that a prudent purchaser would pay no more for a property than the cost of acquiring an equally suitable property; i.e., utility value of a property is equal to utility value of another property when the purchaser would be equally satisfied with either property.

3. The principle of contribution, which asserts that the value of a component part or quantity and quality of a component part of a property depends on how much it contributes to the overall value of the property, i.e., how much its absence would detract from the overall property value.

B. Collecting and verifying data on residential property sales.

The indicated value of a particular property is set when the purchaser and seller agree on a specific price. This "meeting of the minds" becomes a "comparable sale" only when the appraiser can verify that it has occurred. It is better to use data only from properties that have sold and the deed recorded. The listing price of a property for sale can never be used as a comparable.

1. Sources of sales data may vary from one location to another. One or more of the following sources are usually available:

a. County and/or city tax assessment offices
b. Tax appraisers
c. Designated attorneys

d. Public deed records
e. Real estate firms
f. FmHA borrowers who sell with financing from another lender
g. Other lenders

2. The appraiser will complete Form RD 1922-12, "Nonfarm Tract Comparable Sales Data," on sales of properties that are similar in size and design to those eligible for financing through the Section 502 program. The Forms RD 1922-12 may be grouped according to dwelling size, county, town, and neighborhood. The source of the verification of the data will be recorded on the card. Sales data on sites will also be collected by completing the top half of Form RD 1922-12, and documenting the sales price and source of information in the comments section of the card. Form RD 1922-12 applies only to FmHA staff appraisals. (Revised 01-27-93, PN 199.)

3. Inspecting the comparable sale . The appraiser is required to make a complete personal visual inspection of all comparable properties used in the appraisal report. If feasible, an interior inspection of the property should be made, but is not required. A photograph of each property will be attached to the Uniform Residential Appraisal Report, also known as Form RD 1922-8, and identified by address, price, and date of sale. (Revised 01-27-93, PN 199.)

4. Selecting comparable sales . After the appraiser has collected sufficient data on the neighborhood and subject property, the appraiser can select comparable sales data to be used in completing the sales comparison analysis of Form RD 1922-8. The less absolute dollar adjustments (ignoring + and - signs) required to a comparable, the more similarities it has to the subject property; therefore, the more reliable the indicated value in the sales comparison (market data) analysis and the greater the reliance on that comparable in estimating the market indicated value. To avoid large adjustments for location, comparable sales closest to the subject property should be used. The more recent the comparable sales data, the less the amount of adjustment for time and the more reliable the data.

5. Adjustments to comparables in the sales comparison (market data) analysis. If a property next to the subject property had just sold with similar financing and was identical to the subject property, no dollar adjustment would be needed. This seldom happens and dollar adjustments are almost always required. Adjustments will be made and documented when the comparable differs from the subject property in any one of the following factors or features:

a. Sales or financing concessions
b. Date of sale/time
c. Location
d. Site view
e. Design and appeal
f. Quality of Construction
g. Age/condition
h. Above grade room count - gross living area (size)
i. Basement and finished rooms below grade
j. Functional utility
k. Heating/cooling
1. Garage/carport
m. Porches, patios, pools, etc.
n. Special energy efficient items
o. Fireplaces
p. Other

Adjustments to the comparables are made to estimate what the sales price of the comparable would have been if that property was identical to the subject property in all these areas.

6. Basis for estimating dollar adjustments . The paired sales extraction method of estimating the value a particular feature or factor contributed to a properties sale price should be used when possible. When the number of comparable sales is limited in the market area, the appraiser may be unable to complete a matched pair extraction for value differences. In such cases, cost data for items such as area, air conditioning, storage, fireplace, etc., may be used. Survey results may be used to estimate value differences for features such as location, site/view, design and appeal, etc., because of the appraiser's inability to objectively measure value of these type features. In all cases where cost or survey data is used, the data has a higher degree of subjectivity and therefore is less reliable than value indicated by the

matched pair concept. Example of value indicated by matched pair concept are as follows:

Two properties almost identical and in similar locations except one had an attached garage and the other had only a driveway for parking; by comparing the sales prices of each property, the difference in sales price would be attributable to the garage. This value difference could be used in adjusting other comparable sales to the subject property. The more paired sales extractions the appraiser can make for garages-vs-no garages (or for any other differences), the greater the reliability of the data in estimating value contributed by a garage (or other feature or factor).

When two properties have several major differences, a matched paired extraction may not be feasible or reliable. When only two or three major differences are observed and data from other paired sales extractions is available to adjust for all but one remaining difference, value extraction would be possible for the remaining item but the value extracted would be less valid than data extracted from two properties that had only one major difference.

When a systematic comparison cannot be made based on paired sales extraction, the appraiser may use depreciated replacement cost calculation and sound judgment to estimate the value difference caused by a particular feature. However, since cost does not always create a value equal to cost, this method of adjusting comparables to the subject should be avoided whenever possible. When a cost estimate is used, the appraiser must document the reasons he/she was unable to use a value estimate based on a paired sales extraction. When a matched pair extraction cannot be made, the value differences caused by features in the comparable property which differ from the subject property require judgment and experience in order to make adjustments. The appraiser will recognize any significant favorable or unfavorable factors and reflect them in the recommended market value.

a. Sales or Financing Concessions .

This section is to be used to describe any adjustment in the sale price attributed to differences in financing.

Dollar adjustments for these differences will be made by paired sales extraction, cost estimate, or the survey method of value contribution by the specific feature being compared. An adjustment for value difference attributed to more or less favorable financing rates, terms, and cost of

financing in a comparable sale may be calculated, however, this calculation is less desirable than the paired sales extraction method.

When using data from a comparable sale which was financed with more or less favorable terms than typical in the market area, an adjustment must be made to account for the distortion (if any) in sales price due to financing. The following example outlines the steps necessary to estimate the dollar amount of adjustment necessary to correct for this distortion in sales price using the calculation method:

STEP 1 - Establish the "normal" rates and terms of typical conventional financing in the market area as of the date of the appraisal.

STEP 2 - Compare the rates and terms of the financing on the comparable sale being used to the normal rates and terms available in the market area. If there is no difference, there is no adjustment needed for financing; if the rates and/or terms are different, go to STEP 3.

STEP 3 - Establish the mortgage constant for both normal rates and terms and the comparable with rates and terms different from the normal. The mortgage constant is the annual principal and interest payment due the loan, expressed as a percent of the original loan amount. This percentage is easily determined by multiplying the monthly amortization factor by 12. Example: Assume the typical rates and terms are 13.5 percent for 30 years. The 30-year monthly factor @ 13.5 percent is .001146. .001146 x 12 = .1375 mortgage constant, i.e., the total annual principal and interest payment on the loan is 13.75 percent of the original loan amount.

If a comparable property was financed for 30 years at 10 percent, its mortgage constant would be .00878 (Amortization Factor) x 12 = .1054 mortgage constant.

Therefore, .1054 ö .1375 = .767 or 76.7 percent. 76.7 percent x amount of loan on comparable with below market financing, equals sale price for nontypical interest rates.

Assume the comparable sold for $40,000 and had an 80 percent loan to value ratio ($32,000 loan) $32,000 x .767 = $24,544 (say $24,500).

$24,500 + $8,000 (original equity) = $32,500

$40,000 - $32,500 equals a $7,500 negative adjustment to be used for the comparable with below market interest rate. This accounts for the distortion in sale price due to the below market interest rate.

Additional adjustments may be necessary if other financing differences are observed, such as loan origination fees and discount points, which have caused a distortion in the sale price of a comparable property.

The appraiser should, if at all possible, avoid using comparable sales that have financing using balloon payments, flexible interest rates, negative amortization (due to a small payment during the first few years the unpaid principal increase due to excess interest accumulation), short term seller financing on a portion of the equity, etc. Due to the complexity of these types of financing, the true cost to the purchaser is difficult to identify and therefore cannot be accurately estimated or supported in an adjustment to the comparable sale price in the appraisal except by the matched pair extraction method.

b. Date of Sale/Time .

The appraiser must determine the annual percent change in price of residential properties (increase or decrease) based on data published by Federal, State, and local agencies and real estate sale firms. Another more reliable method to analyze real estate market trends is by the use of a sequential analysis of sales that have occurred in the local market area. Sequential analysis is accomplished by collecting data on sales that have occurred in a specific time period and comparing the sale prices on a price per square foot basis. Refer to Exhibit A-1 of Subpart C of RD Instruction 1922, for a detailed example and calculation sheet format.

c. Location

Location has a significant influence on the value of a residential property. The difference in value of a property

in one location when compared with an identical property in another location is the amount of depreciation due to economic obsolescence. The location of the property with respect to community services, such as transportation, places of worship, recreation, employment, shopping facilities, schools, and roads are important considerations in making appraisals. The value is closely associated with the availability of adequate income and employment opportunities. Locations on good roads within reasonable distance from well-established employment opportunities have a distinct advantage over properties that are remotely located with respect to employment opportunities, essential services, and general accessibility.

Locational considerations include:

(1) New modern homes that are adequate but modest in size, design, and cost, located in a growing progressive community may have market value equal to the current construction cost of similar homes in the area plus the value of the land. The term "growing progressive community" means a rural town or densely populated rural area where employment opportunities are available on a permanent basis to assure that a ready market likely would exist for the type of homes being constructed.

(2) The market value of new modern homes that are adequate but modest in size, design, and cost, located in small towns or other densely populated rural areas <u>of a static or declining population or limited employment opportunity</u> will usually range bellow average cost or constructing a home, plus the value of the land. The term "static or declining area" refers to a community, small town, or area of a city or town where employment opportunities are very limited or are declining. This is an area in which growth has been arrested or the rate of growth may be declining.

(3) Factors outlined in §1922.104(a)(1) of this subpart.

(4) New modern homes located in open country will vary widely in market value in relation to the cost of the dwelling plus the value of the land. This is associated primarily with the desirability of the property from the standpoint of location, accessibility, utilities, community facilities, and the

aesthetic appeal of the property. When some of these elements are absent or unfavorable, value likely would be influenced adversely because of the limited number of persons willing to purchase such property when compared to the number who probably wold be interested in a similar property located in an area where essential services and facilities are more readily accessible.

d. Site/Site View .

Value difference may result due to lot size, shape, topography, and the view from the site; is it surrounded by older homes, overlooking a nice wooded area with a stream, next door to a service station on a heavily traveled street, located next to railroad, etc. The appraiser may be unable to determine value differences by the matched pair concept because of limited numbers of actual sales, and therefore, may have to rely on survey data. Again, data collected from a survey would have a greater degree of subjectivity than data extracted from matched-paired sales; however, would be much less subjective and more supportable than a "mental" estimate based solely on the appraiser's opinion from past experience. The survey results should always be tempered by good judgment and supported by the appraiser's past experiences and training. The greater the experience and training of an appraiser, the more defendable the final value estimate, just as the greater the number of matched pair value extractions for a certain factor or feature or the larger number of families in a sample, the greater the reliability of the estimate. The appraiser must also make adjustments if the subject site has objectionable factors such as the lot being in a flood plain, seismic or mudslide area, and/or objectionable soil characteristics such as high shrink/swell potential if the comparable site did not have one or more of these objectionable features.

e. Design and Appeal .

Many different designs of homes exist in the Nation. A certain locality will likely have a predominate style and design of home such as ranch, split foyer, western pueblo, temperate zone concrete house, flat roof, two story, etc.

When appraising a home with design different than the more prevalent design for the area, or using a comparable sale that is of a different design and style as the subject property, a value difference may exist. To measure the difference in value caused only by this factor the appraiser would use the paired sales extraction method when possible or the survey method to support the reasoning for any estimate of difference of value due to style and design.

f. Quality of Construction .

Soundness of construction must be considered since it determines the amount of maintenance due to normal wear and tear and exposure to environmental elements and may affect the economic life of the dwelling. A house of quality construction reflects more value than one of substandard material and workmanship. The primary method that should be used to estimate value differences in different quality homes is by market extraction. This compares two homes which are similar in all features except quality, that have sold; the difference in sale prices would be value difference due to quality. Cost information from nationally distributed cost calculation publications, such as the Marshall and Swift Residential Cost Handbook, may also be used to estimate the difference in cost of different qualities of houses when estimating value differences.

Since poor quality workmanship may cost the same as good quality workmanship, the cost approach to estimating value differences should be avoided when possible. However, when adequate documentation is provided to support the value difference estimate and the inability to use the paired sales extraction method, the cost calculating handbook quality comparison method may be used.

g. Age and Condition . (Revised 01-27-93, PN 199.)

During the inspection visit to an existing property, the appraiser must document the effective age of the structure and each of its major components as outlined in Part IV, C and D of this exhibit.

When adjusting comparables to the subject, any differences in age or condition in the two properties will be accounted for in positive or negative dollar adjustments to the comparable. This will account for physical depreciation in both the subject property and the comparable property in the Sales Comparison analysis.

When the subject property is to be repaired prior to or immediately after an appraisal is made, a repair list and cost estimates are to be obtained prior to making the appraisal. No physical depreciation would exist for the items replaced or repaired to new condition.

Typical conditions requiring repairs or replacement are: termite damage; damaged, inoperative or inadequate plumbing; heating or electrical systems; broken or missing fixtures; rotten or worn out counter tops or finished floors; any structural failure in framing members; leaking or worn out roofs; exterior paint peeled to the bare wood; masonry and foundation damage; drainage problems; wood floors worn through the finish; broken plaster or sheetrock, failure to meet requirements of local codes and minimum property standards, and any element which, while still operable or useful, will have reached the end of its useful life within a period estimated not to exceed five years, should also be replaced. With respect to such deferred maintenance items, good judgment must be exercised.

h. Above Grade Room Count - Gross Living Area (Size) .

Comparable properties usually vary in size of living area from the subject property. The appraiser should select comparables as similar in size and room count to the subject property in order to avoid large adjustment for size differences. For RHCDS purposes, above grade room count means overall room count and corresponding gross living area (size). (Revised 10-27-95, SPECIAL PN.)

The following method must be used to adjust for size differences:

(1) Subtract the site value from the sales price of the comparable. When the comparable has a garage, carport, or basement, subtract the estimated value of those features.

(2) Divide the remaining amount in item (1) by the total square feet of living area in the comparable to obtain sale price per square foot of living area.

(3) Subtract the total square feet of living area in the comparable from the total square feet of living area in the subject. When the comparable dwelling has more living area than the subject, the answer will be negative (-).

(4) Multiply the square foot difference by the price per square foot obtained from the calculations in item (2). The answer will be the amount of dollar adjustment to make to the comparable to compensate for the amount of sale price contributed to the difference in size. When the size difference is a negative amount, the adjustment to the comparable will be a negative adjustment. Adjustments for value differences caused by site, garage, and/or carport differences will be made later.

The following examples illustrate this method of estimating value differences due to size of living area:

Assume comparable A sold for $40,000 and had a single car garage valued at $3,000 and a site value of $8,000. The dwelling contained 1200 square feet of living area.

Assume the subject property has 1100 square feet of living area. The following calculations are made:

$40,000 - 3,000 - 8,000 = $29,000

$29,000 ö 1200 = $24.17 per square foot of living area.

1100 - 1200 = -100 square feet difference

-100 x $24.17 = -$2,417 adjustment to the comparable for size difference (rounded equals a minus $2,400 adjustment)

Comparable B sells for $49,000, had a site value of $5,000, a double car garage valued at $4,000, and a basement valued at $10,000. The dwelling had 1000 square feet of living area.

Assume the subject has 1100 square feet of living area. The following calculations are made:

$49,000 - 5,000 - 4,000 - 10,000 = $30,000

$30,000 ö 1000 = $30.00 per square foot of living area

1100 - 1000 = +100

+100 x $30.00 = +$3,000 adjustment to the comparable for size difference.

i. Basement and Basement Finished Rooms .

A basement is the lowest story of a dwelling, partially or totally below ground level; not a cellar. A basement may contain finished rooms suitable as living area, whereas a cellar is not suitable for living area. The lower level of a Split Level dwelling, which contains a partial basement (rear wall/below grade) and finished room area adjacent to the partially exposed front wall of the lower level, is not considered a full basement. The finished area contained

therein for FmHA purposes, will be included in the above grade room count/gross living area computations on Form RD 1922-8.

Basements may vary widely in ceiling height, usable space, ventilation, access to natural light, type of wall and floor surfaces, and access to the upper level of the dwellings and to the outside. As a result, two dwellings with the same number of square feet of basement area may have significantly different values contributed by the basement. A basement with low ceilings or other unacceptable features may cost more to construct than the value it contributes to the total property. Finished rooms in a basement with poor quality material and finish work may actually cause the basement to contribute less value to the property than if it contained no finished rooms.

The basic principle of extractions from matched-pair sales applies to estimating the value contributed by a basement and basement finished rooms. Only when a matched-pair extraction cannot be made will be appraiser use replacement cost calculations to estimate the value contributed by a basement and basement finished rooms. The appraiser must make adjustments to the replacement cost estimate for any undesirable features observed such as low ceilings, unacceptable floor and or wall surfaces, poorly constructed finished rooms, moisture problems, poor entrance stairs, or lack of entrance from the main floor of the dwelling, etc.

Finished rooms in a basement usually do not cost as much as finished rooms on the main level of a dwelling. Therefore, the appraiser must be careful to not include basement finished rooms in the total finished area of the above ground floors in the dwelling.

j. Functional Utility .

Any design or feature of a dwelling that is not acceptable to the typical buyer in the market area will be identified by the appraiser on the inspection visit to an existing dwelling or in the review of the plans and specifications of a dwelling to be built. All items affecting the livability and marketability of the property will be recorded in the appraisal report. The appraiser will measure the value difference caused by functional obsolescence, by comparing properties that have sold that meet the demands of the typical purchaser to comparable properties that have sold that had similar items that did

not meet the livability and marketability demands of the typical purchaser. The appraiser must be familiar with the taste and desires of the typical purchaser in the market area in order to support the estimate of value loss due to functional obsolescence of a property. The appraiser's estimate of amount of functional obsolescence caused by features not meeting the standards in market area should always be tempered by good judgment based on the appraiser's past experience, common sense, training, and knowledge of the market area.

Home buyers demand certain features in a property, and these demands set the standard for a particular feature. A dwelling that is missing one or more standard features will be worth less than a dwelling that contains all the features that meet the desirability standards set by home buyers. An over-improvement in a property that causes its cost to exceed what the typical purchaser can afford or is willing to pay for also contributes to functional obsolescence. This may result in a depreciated replacement cost less that reproduction cost new of existing dwellings and less than construction cost of a new dwelling. When estimating functional obsolescence due to non-standard design and appeal of a dwelling, the appraiser must consider:

(1) Special Design Dwellings . Dwellings designed to meet special needs of a borrower and for which there likely would be few buyers if they were offered for sale, would have a market value substantially less than the cost. Also, dwellings that because of unusual design or construction are not generally accepted in the community likely would have limited resale value.

(2) Large and Expensive Dwellings . Dwellings that are larger or more costly than adequate modest dwellings in the area likely will not have a market value significantly greater than the market value of modest but adequate dwellings in the area unless the typical purchaser could afford them. For this reason, probable future demand for the larger or more costly dwelling is not likely to exceed other dwellings available in the less costly price range.

(3) Older Homes . Market standards change over time as the taste of the typical buyer changes. Older homes that were built to suit the taste of the typical home buyer years ago may not meet the current standards set by today's home buyers. Features such as height of ceiling, room size, cost of heating and cooling, cost of

maintenance, etc., may result in functional obsolescence. Such features should be carefully examined by the appraiser and reflected in the accrued depreciation estimate.

(4) Property Features . Property features less acceptable to the typical purchaser as a result of undesirable features or lack of desirable features will be considered in estimating any decrease in value in the property. Features such as, but not limited to, the following will be examined for both existing properties and dwellings to be constructed when estimating functional obsolescence:

(a) Room arrangement that does not provide for convenient access, circulation, and privacy within the dwelling.

(b) Kitchen cabinets and counter space that does not provide for efficient food preparation, serving, and storage.

(c) Room sizes not sufficient to accommodate typical furnishings and allow for intended use and circulation.

(d) Window and door size and placement which does not provide for adequate natural light and ventilation and ease of access and movement of furnishings.

(e) Bathrooms that do not allow for access to, and use of, each fixture, or placement that restricts convenient access to the facility.

(f) Closets and general storage inadequate to provide storage of clothes, coats, linens, household supplies, and maintenance tools normally associated with the desires of the typical purchasers.

(g) Site design including landscaping, driveways, walks, retaining walls, and relationship to site surroundings not considered desirable to the typical purchaser.

(h) It is important to examine closely those basic exterior features which are fundamental to making a home attractive, livable, comfortable, and adequate. Condition and type of roof, siding, windows, doors, and foundation should be carefully examined.

k. Heating/Cooling.

Homes to be built that will have a properly sized central air conditioning system installed during construction may have a value increase equal to or greater than the cost of installation. Existing dwellings without air conditioning may not increase in value equal to the retrofit installation cost of an air conditioning system when the cost exceeds the installation cost of an identical system in a dwelling being built.

The actual increase in the value of a property attributed to air conditioning or decrease in value due to lack of air conditioning can be measured only by sales comparison analysis (market data extraction). Whoever, estimates based on the survey method and cost calculation method are acceptable when the appraiser adequately documents the lack of adequate comparable sales necessary to obtain a matched-pair extraction.

A very small increase in value is usually observed in dwellings with individual window unit air conditioners. Window unit air conditioners usually do not have as long an economic life as a central system. For FmHA appraisals, no value will be placed on wall mount or window mount air conditioners.

Value differences between the subject property and comparables attributed to heating systems must be reflected in the appraisal process; eg., heat pumps versus electrical baseboard heat. The value differences will be measured in the same manner as air conditioning systems.

1. Garages/Carports and Outside Storage . Attached or detached garages, carports or basement garages influence the value of residential property. This value contribution should be estimated by the sales comparison analysis (market data extraction) method. When adequate market data is not available, the depreciated replacement cost calculation method may be used.

Parking facilities such as an uncovered parking pad will not be included in the garage/carport adjustment section of the sale comparison analysis section, on Form RD 1922-8. (Refer to "other" section).

In addition to adequate living area, home buyers normally require adequate enclosed space for exterior

storage of lawn maintenance equipment, etc. When this type of storage space is built into an attached carport or attached garage, adequate space is usually included for clothes washer/dryer machines. Since storage is essential for most homeowners, a dwelling without adequate suitable storage facilities will likely have a value less than a dwelling with adequate suitable storage space.

The basis for estimating value differences due to storage is by market data extraction or construction cost estimate. When an extraction cannot be made from available market data, the construction cost estimate of exterior storage will be considered an acceptable estimate of value of exterior storage because, in most situations, the cost of providing exterior storage is similar to the cost in a dwelling being built.

m. Porches-Patios-Pool, etc .

Appropriate adjustments for these features should be based upon local market conditions.

n. Special Energy Efficient Items .

All dwellings financed by FmHA are required to meet the thermal standards contained in Exhibit D of RD Instruction 1924-A. When comparable properties are used that do not meet FmHA thermal standards, adjustment to the sales price may be necessary in order to account for the value difference due to lack of energy efficient items.

(1) Lack of energy efficient items. Existing dwellings with inefficient heating systems and/or without perimeter wall insulation, larger than normal room sizes and high ceilings are much more difficult to heat and cool than the typical new dwelling that meets all FmHA thermal standards. The increased utility cost to the typical purchaser normally results in less incentive to purchase the inefficient home. This usually results in the sales prices of these homes being significantly less than homes with lower utility costs. The market data extraction from paired sales is the most desirable method of estimating value differences between energy efficient homes and homes that are not. The value difference is usually greater than the cost of installation in a new home since it is not usually economically feasible to lower ceilings, replace inefficient but functional heating systems, or install insulation in existing walls.

Another method of estimating value difference due to excessive cost of heating and cooling an existing home is by the comparative energy audit method. This method requires an energy audit by a utility company be performed on both an energy efficient dwelling and the dwelling being appraised that is not energy efficient. The results of this cost comparison will be the excess monthly utility cost of the inefficient dwelling over the energy efficient dwelling. The difference divided by the amortization factor for $1.00 at the interest rate being charged on FmHA loans at the time of the appraisal. (FmHA amortization tables are for $1,000 amortization factor.) The result of this division is the amount of loan funds (therefore purchase price) that could be repaid from the amount of excess utility cost if it did not exist. For example, assume a comparative energy audit indicated the monthly heating/cooling cost of a non-energy efficient dwelling to be $50 higher per month and the FmHA moderate income interest rate in effect at the time of the appraisal was 12 percent and the loan was to be for 33 years. The 12 percent monthly amortization factor for 33 years is 10.20 per $1000 from the FmHA amortization tables.

10.20 - $1,000 = .01020 per $1.00

$50.00 - .01020 = $4,902.50
(rounded - $4900)

This indicates the purchaser could pay $4,900 more for an energy efficient home and would have the same total monthly cost for loan payments and utilities. Therefore, this indicates that dwellings that are not energy efficient would be worth $4,900 less than the energy efficient dwelling due to lack of energy efficient items.

This example demonstrates one method of estimating value differences in energy efficient versus non-energy efficient homes; however, actual sales data extraction should form the basis for this estimate when available.

(2) Excess energy efficient items. A point of diminishing return may be reached when R values are increased beyond the point of providing a savings in utility cost equal to the cost of the investment. For FmHA appraisal purposes energy efficient items in excess of FmHA thermal standards are not required to be considered in the value estimate for a property being appraised. A separate calculation may be made when an

applicant specifically requests a significant amount of excess insulation material or solar items be included in a dwelling to be built or applies to purchase an existing dwelling with these features. This calculation is called "Value in Use." The FmHA County Office will request assistance from the State Office in determining the appropriateness of the feature for FmHA modest housing and in making the calculation. Exhibit D, Subpart B, of Part 1922 outlines the Value in Use method and must be followed in making this estimate. (Revised 9-5-90, PN 144)

o. Fireplaces.

Adjustments should be made for any changes in value which are caused by the existence or non-existence of a fireplace. All adjustments should be market extracted.

p. Other.

Any differences in the comparables and subject property, such as the sale price of the comparable included a trash compactor, disposal, refrigerator, dishwasher, clothes wash and dryer, while the subject property does not, will have to be accounted for in the Sales comparison Analysis section, titled "Other."

Common elements and assessments will also be addressed in this section. When a subdivision or town house type development has a perpetually maintained area of common property where all property owners have equal rights to use of the common property, a favorable influence on property values within the development may be observed. This value contribution can be measured only by comparing sales of similar properties where owners do not have rights to common properties to sales of properties in a development where the property owners do have access to common property.

The influence of assessments, whether annual or monthly, on property values will be estimated by comparing sales of properties without assessments to sales of similar properties with assessments. When all properties in a market area are subject to a similar amount of assessments no estimate need be made for this factor.

Interior storage facilities, such as kitchen cabinets, closet space, and a utility room are usually required by home buyers. A dwelling without adequate space to install interior storage may be worth substantially less than a similar dwelling with adequate interior storage space. When estimating the decrease in value of a dwelling due to lack

of interior storage space, the appraiser must use the market data extraction method when possible. The cost to retrofit interior storage is almost always greater than when the space is provided during the initial construction of the dwelling. Construction cost to provide adequate, suitable interior storage space may form the basis for this estimate only when adequate market data is not available. When plans and specifications for a dwelling to be built indicate less interior storage space than is normally observed in dwellings, the appraiser must be careful to consider the excess cost involved in providing this storage space in the dwelling after the construction has been completed.

Any area of the dwelling 7 feet or more in height not included in finished living area or basement area will be included in total storage space. Crawl space without a finished floor and/or less than 7 feet in height will not be included in storage area.

Adjustments for driveways and uncovered parking pads should be extracted from local market data.

VI. Replacement Cost Approach .

Reproduction cost new less any adjustments required to reflect value l oss due to functional and economic obsolescence, and physical deterioration equals depreciated replacement cost. The depreciated replacement cost plus the value of the developed site equals property value indicated by the cost approach. The depreciated replacement cost estimate, therefore, takes into account any differences in market standards for design, layout and other features that are observed in the structure being appraised in addition to any value decrease due to physical deterioration and location.

A. Four methods are used in estimating the reproduction cost of a dwelling.

1. Quantity Survey Method . This requires an item-by-item listing of individual parts and labor costs to assemble the complete dwelling plus the typical builder's indirect cost.

This method requires not only a thorough knowledge of the construction trade but requires an extensive amount of time to obtain price quotations on each type and size of material that is to be used in the construction plus estimates of wages to be paid laborers, builder's profit and indirect cost, such as construction financing expenses. These requirements limit the use of the quantity survey method in the appraisal process.

2. Unit in Place Method . This method is less time consuming than the quantity survey method because the appraiser groups portions of the structure that are usually constructed by subcontractors. For example, plumbing, wiring, kitchen cabinets, floor covering, footing/foundation, framing, etc., are segments of a structure that may be subcontracted.

The appraiser's cost estimate would be leased on the price each subcontractor would charge for a particular segment of the structure. Gathering this information from multiple subcontractors for a single group of items is often difficult.

3. Trade Breakdown Method . The cost of installing each major item is collected from subcontractors or published cost services. This information may be obtained on a per unit basis such as square or linear foot. For example, a local carpet installation company usually would charge a certain rate per square yard or per square foot to install carpet. The published cost services uses the trade breakdown method in the segregated cost tables.

4. Comparative Unit Cost . This is a lumping together of all cost of constructing the dwelling into a single cost per square foot of living area, garage or carport area, basement area, porch area, etc. This may be based on data obtained from local contract prices to build dwellings similar in quality and design to the dwelling being appraised or on published cost services and computerized cost services. This is the preferred method and is used by most appraisers because of its simplicity and because it offers an acceptable degree of accuracy. The Marshall and Swift Publication Company Residential Cost Handbook is to be used in calculating replacement cost of improvements to the site when appraising proposed or existing properties under 1 year of age. The handbook has instructions on how to use data to make cost calculations. (Revised 01-27-93, PN 199.)

PART VII Reconciliation and Estimated Market Value .
(Renumbered 01-27-93, PN 199.)

Reconciliation is: The process by which the appraiser evaluates, chooses, and selects from among two or more alternate conclusions or indications to reach a single answer (estimated market value).

The appraiser weighs the relative significance, applicability, and defensibility of the indication of value derived from each approach and places the most weight and reliance on the one which in his/her judgment best approximates the value of the property being appraised.

Estimated Market Value .

The estimated market value is the appraiser's opinion or conclusion resulting from the application of the framework of appraisal analysis, including final reconciliation, to the appraisal problem at hand. It stems from the analysis of the indications of value developed in each approach to value estimation utilized in the appraisal. It is that value which most nearly represents what the typically informed, rational purchaser would pay for a residential property (subject property) if it were available for sale on the open market as of the date of the appraisal given all the data (and only those data) utilized by the appraiser in his/her analysis.

The estimated market value is just that ... an estimate. Therefore, it must be appropriately rounded to eliminate any implication or unwarranted claim of excessive precision accuracy. Rounding brings the estimate to a reasonable degree of accuracy consistent with the standards of the appraisal profession, the price level or range within which the value falls and the type of property being appraised.

The ultimate goal will have been reached if the estimated market value is sound and the appraiser's findings sufficiently documented to be understandable and convincing.

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Single Family Residential Appraisal
Sequential Analysis

Sequential analysis of sales data is a reliable method of determining local market trends in real estate values. In order to utilize this method to make adjustments in the appraisal for the date of sale (time) in the sales comparison analysis section of Form RD 1922-8, "Uniform Residential Appraisal Report," comparable sales data must be collected and analyzed for a specific time period. The appraiser will analyze comparable sales prices on a price per square foot basis over a specified time period and derive a percent change in selling price for the local real estate market.

The following is an example of sequential analysis and represents comparable sales data available in a geographical area from March 1986 thru March 1987 (12-month period):

Sale	Date of Sale	Sale Price	Square ft. of Living Area	Price sq. ft. Living Area	Percent Change from Base**	Months from Base **
1.	3/86	$40000	1220	$32.79	-0-	BASE
2.	4/86	$36000	1100	$32.72	-.21	1
3.	5/86	$35000	1050	$33.33	-1.64	2
4.	6/86	$38500	1200	$32.08	-2.17	3
5.	6/86	$42000	1375	$30.55	-6.83	3
6.	7/86	$32000	1000	$32.00	-2.41	4
7.	9/86	$37500	1180	$31.78	-3.08	6
8.	10/86	$31000	960	$32.29	-1.52	7
9.	12/86	$39250	1320	$29.73	-9.33	9
10.	12/86	$35000	1100	$31.82	-2.96	9
11.	1/87	$38000	1250	$30.40	-7.29	10
				Totals	-34.16	54

DATE OF ANALYSIS: MARCH 1987

To determine the percent change in price per month in the above example, the appraiser will compare the price per square feet of living area on each comparable sale versus the price per square feet of living area on the BASE month. Adjustments will be expressed as (+ or -) percent and summarized in the total section. Selection of comparable sales similar in amenities and size will provide the appraiser with a more accurate analysis of time adjustment for a local real estate market.

Sequential Analysis must initially be developed for a 12-month period of time. In some geographic areas, comparable sales data may not be available for every month of the calendar year, as shown in the above example. Thereafter, appraisers must update information on a monthly basis which necessitates replacing the BASE month to properly identify the next 12-month sequential analysis update on percentage changes for time adjustments in the real estate market.

In order to complete the sequential analysis, ** Omit the BASE month and determine the average of the two columns.(See Totals).

-34.16 ö 10 months = -3.42 Average percent of price change
54 ö 10 months = 5.4 Average number of months from the BASE month
-3.42 ö 5.4 = -.63 percent change per month (-.0063 as a decimal)
-.63 x 12 = -7.56 (-.0756 as a decimal) percent change per year

-7.56 % is the average annual percent change in selling prices per year for the local real estate market in this example.

Positive values reflect appreciation whereas Negative values reflect declining values.

Therefore, when completing appraisals in a specified real estate market, the appraiser would adjust the date of sale (time) for comparable sales by the average annual percent change in selling price, determined by sequential analysis.

Adjusting a comparable sale price to the subject property for date of sale (time) would be completed as shown in the following example:

Assume a comparable property sold 10 months ago for $42,000 with an average monthly percent change in selling price of -.63% (-.0063 as a decimal).

-.0063 per month x 10 months = -.063 total change in 10 months.

-.063 x $42,000 = -$2646 (always round to the nearest $100.00)

-$2646 rounded = -$2600 + 42,000 = $39,400 sale price adjusted for time. This adjustment would appear as -$2600 in the "Date of

Sale/Time" column in the sales comparison analysis section of Form RD 1922-8. Positive percent changes (increase in average monthly selling price) would be added to the comparable sale price to adjust for time.

Sequential Analysis is an effective method to evaluate real estate market conditions and related economic trends within a specified geographic area.

RD Instruction 1922-C, Exhibit A-1 worksheet, provides a worksheet format whereby FmHA appraisers can perform sequential analysis computations. The worksheet may be retained in a binder for historical data purposes on specified geographic areas. This will provide FmHA staff with real estate value trends and valuable data base information which can be referenced in the completion of the sales comparison analysis section of Form RD 1922-8.

RD 1922-C, EXHIBIT A-1 WORKSHEET
SEQUENTIAL ANALYSIS

(Specify Month/Year)

Comparable Sale	Date of Sale	Sale Price	Square ft.of Living Area	Price sq. ft. Living Area	% Change from BASE *	Months from BASE *
1.					-0-	BASE
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						

TOTALS

Column A	Column B

* OMIT the BASE MONTH and determine the average of Column A and Column B.

Column A ö Column B = ----- Average percent of price change.

Total Months from BASE ö Months from BASE = ----- Average number of months from the BASE month

Avg. % of Price change ö Avg.No. of months from the BASE = ----- % change per month (as a decimal).

----- x 12 months = ----- % Average annual percent change in prices per year

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SINGLE FAMILY HOUSING INCOME APPROACH FOR NONPROGRAM PROPERTY

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SINGLE FAMILY HOUSING INCOME APPROACH FOR NONPROGRAM PROPERTY

Part I. General.

Single family residential properties which meet program standards are typically not purchased for investment income or profit. However, FmHA single family housing (SFH) inventory property may be sold to investors for rental purposes. The income approach using the gross rent multiplier analysis can therefore, be an extremely effective tool in estimating the Market Value of nonprogram properties. The income approach using the gross rent multiplier in accordance with this exhibit may be used as part of the appraisal process for nonprogram FmHA inventory SFH property.

Part II. Definitions.

A. The Income Approach: An alternative approach to the value of real property which measures value from use to the typically informed, prudent purchaser investor, basically through the principals of substitution and marginal productivity.

B. Gross Rent Multipliers: The ratio between the sale price of a residential property and its gross monthly unfurnished rental.

Example: Sale Price divided by the Gross Monthly unfurnished rent equals Gross Rent Multiplier

C. The Gross Rent Multiplier Analysis (GRMA): A procedure that analyzes sale prices and gross rents of comparable properties and applies the results in estimating the value of the subject property. This analysis compares properties on the bases of their capacity to generate income, and of the relationship of that income to sale price. This analysis is based on the proposition that an informed purchaser must receive a return on investment (in income or amenities) of at least as much and embodying similar risk as could be received from an alternative investment. The GRMA estimates market value by multiplying the gross market rental of the subject property being appraised by a multiplier developed from a number of actual sales transactions for comparable properties.

D. Market Rent: The rent a property would most probably command in the open market as indicated by current rentals being paid for comparable space as of the effective date of the appraisal.

E. Mean, Median, and Mode:

1. Mean: The calculated average.
2. Median: A positional average.
3. Mode: The most frequent value.

Example Sale Data (from low to high):

Comparable	Monthly Rent
1.	$100
2.	$110
3.	$110
4.	$115
5.	$115
6.	$115
7.	$120
8.	$120
9.	$125
10.	$125

Mean= $116 [$1,155 (the total monthly rents) divided by 10 (the Number of Comparables) equals mean rent of $116]

Medium= $115 [10 (total number of comparable sales) plus 1, divided by 2 equals 5.5, which based on the above sale No. 5 ($115) plus sale No. 6 ($115) equals $230 divided by 2 equals medium rent of 8115]

Mode=$115 [$115 appears most often in the above rents]

Part III. Data Requirements .

A. To utilize the GRMA approach, information concerning the sale prices and gross monthly unfurnished rentals of comparables is required. Form RD 1922-12, "Nonfarm Tract Comparable Sales Data," is to be used to store data on comparable rental property sales including gross monthly unfurnished rent. An adequate quantity of reliable and verified data is required for appropriate application of the GRMA.

B. Comparable sales properties must be comparable with the subject property and the appraiser must note enough details to ascertain they are comparable. This involves comparing information about the type, area, number of rooms, functional utility, value range, and condition of the properties to be compared. The comparable properties should have been rented at the time of sale and the rent amount verified. Comparable sales must be bonafide, arm's length transactions and not more than 12 months elapsed between the comparable sale date and the date of the subject property appraisal. Generally, 8 to 10 reliable comparable sales of rental properties should be found although more would be desirable. GRMA should normally not be given as much weight in determining the final value estimate if fewer than 4 comparables are available.

Part IV. Estimating the Gross Rent Multipliers .

The appropriate gross rent multiplier for the subject property is determined from several current comparable sales of rental properties from the local market. The same standards for comparable sales properties apply in gross rent multipliers analysis as are applied in the direct sales comparison approach. The comparable properties must be current and as nearly comparable with the subject property as possible. The gross rent multiplier (GRM) for a residential property is obtained by dividing the sale price (SP) of a property by its gross monthly unfurnished rental (GR), i.e., SP ö GR = GRM. Gross rent multipliers normally fall into a pattern in a relatively narrow range. This will occur if the properties are truly comparable to the subject property and to one another anc if no unusual market influences or individual property influences distort the results. The appraiser then selects the gross rent multiplier indicated by the pattern as that which is applicable to properties of the type being appraised in the current local market. This is the multiplier to be applied to the estimated market rental of the subject property to provide an estimate of market value by the income approach.

If there is a sufficient number of comparable rentals, statistical calculations, such as mean, median, and mode can be used to provide an indication of the GRM for the subject property.

Example 1 . Determining the Estimated Gross Rent Multiplier

GROSS RENT MULTIPLIER GRID

Comparable Property	Verified Sale Price	Verified Monthly Gross Unfurnished Rent at Time of Sale	Indicated Gross Rent Multiplier
1. S. Smith	$18,500	$210	88
2. B. Baily	$15,000	$150	100
3. D. Tracy	$12,000	$125	96
4. D. Mitchell	$17,500	$175	100
5. C. Brown	$15,750	$150	105
6. L. Abner	$13,500	$135	100
7. M. Hammer	$21,000	$225	93
8. C. Bronson	$14,500	$150	97
9. C. Eastwood	$17,500	$175	100
10. B. Cosby	$20,000	$200	100
Mean = 98	Median = 100	Mode = 100	Range = 88-105

Gross Rent Multiplier indicated = 100

Part V. Adjusting Market Rent .

If current sales and comparable properties are available, adjustments in comparable rentals for differences between comparable properties and the subject property should not be made. If there are few comparable rentals, some of which are not sufficiently similar to the subject property to permit direct comparison, adjustments must be made.

Rents are adjusted by selecting the rent that is most probable for the property, given the market data and similarities of the properties. Reconciliation may be assisted by reducing comparable rentals to a per-unit basis which is especially effective in adjusting differences in size, baths, carports, etc.

If there is a sufficient number of comparable rentals, simple statistics such as mean, median, and mode can be used to provide an indication of market rental; however, adjustment can sometimes give a more defined indication of market rental.

Example 2: Estimating Market Rental

Market Rent Grid

Comparable	Date of Sale	Monthly Rent	Carport/ Garage	Square Feet	
1. S. Smith	7/86	$210	Yes	1100	6/3/1-1/2
2. B. Baily	11/86	$150	No	1075	6/3/1
3. D. Tracy	4/86	$125	No	1050	6/2/1
4. D. Mitchell	10/86	$175	No	1125	6/3/1-1/2
5. C. Brown	9/86	$150	No	1150	6/3/1
6. L. Abner	9/86	$135	No	1100	6/2/1
7. M. Hammer	2/86	$225	Yes	1150	6/4/1-1/2
8. C. Bronson	10/86	$150	No	1100	6/3/1
9. C. Eastwood	6/86	$175	No	1075	6/3/1-1/2
10. B. Cosby	5/86	$200	Yes	1110	6/3/1-1/2
Subject	XXXXXX	XXXXX	No	1100	6/3/1

Mean: $170 Median: $163 Mode: 150 Range: $125-$225

* Estimated Rent indicated: $160

*Adjustments via the "Matched Pair Sales Extraction" may provide a more defined estimate of market rent of the subject property. The "Matched paired" concept is used to abstract adjustments from the market when more than one difference exists. One rental is designated as the base rental which is adjusted for all known differences except for the one being sought. Further comparison is made with the other rental in the pair and any remaining differences in rent is attributed to the remaining comparison.

Example 3: Monthly Rent Adjustments

Comparable	Features	Monthly Rent
#7 M. Hammer	4 bedrooms, 1-1/2 bathrooms, & carport or garage	$225
#1 S. Smith	3 bedrooms, 1-1/2 bathrooms, & carport or garage	$210
Monthly rent attributed to added bedroom		$ 15
#1 S. Smith	3 bedrooms, 1-1/2 bathrooms, & carport /garage	$210
#4 D. Mitchell	3 bedrooms, 1-1/2 bathrooms, w/o carport/garage	$175
Monthly rent attributed to carport or garage		$ 35
#9 C. Eastwood	3 bedrooms, 1-1/2 bathrooms	$175
#8 C. Bronson	3 bedrooms, 1 bathroom	$150
Monthly rent attributed to 1/2 bathroom		$ 25

Example 4: Making Adjustments to Market Rent

COMPARABLE RENTAL GRID

Feature	Subject	Comp. Rental 1	Comp. Rental 2	Comp. Rental 3	Comp. Rental 4
Rent	XXXXXX	$210	$150	$125	$175
Bathrooms	1	1-1/2 (-$25)	1 (=)	1 (=)	1-1/2 (-$25)
Room Count	6		6 (=)	6 (=)	6 (=)
Garage/ Carport	No	Yes (-$35)	No (=)	No (=)	No (=)
Bedrooms	3	3 (=)	3 (=)	2 (.$15)	3 (=)
SF Living Space	1100	1100 (=)	1075 (=)	1050 (=)	1125 (=)
location	Aver.	Aver.(=)	Aver.(=)	Aver.(=)	Aver.(=)
Net Adjustment	XXXXXX	-$60	$0	+$15	-$25
Indicated rent of subject	XXXXXX	$150	$150	$140	$150

NOTE: Both plus and minus adjustments must be made. The rents will usually vary after applying the net adjustments requiring reconciling into a final indicated rental value estimate. In this case the estimated market rental of this subject property is $150 per month. By making adjustments to the comparable rental properties, Comparable 2 provides a more supportable estimate of market rent than Comparable 4. (Revised 1-3-90, PN 125)

Part IV. Estimating Market Value of the Subject Property .

After the market rental for the subject property and the gross rent multiplier have been established via comparative analysis with rental properties and sales of rental properties, the estimate of "as improved" market value (MV) of the subject property is obtained by multiplying the market rental (MR) by the gross rent multiplier (GRM).

MR X GRM = MV by Income Approach

When the market value by the income approach estimate is known the appraiser must decide whether an additional adjustment is needed due to the differences in condition between the subject property and the comparables used in the appraisal. A review of the subject and comparables short and long term physical depreciation breakdown is a good indication of when this adjustment is needed. Therefore, if the subject property's condition at the time of the appraisal and the comparable properties' condition at the time of their sales are in the same general condition, put a zero in item #4 of the "Final Value Estimate Grid" as no adjustment would be needed. However, if the subject property's condition is not in the same general condition as the comparable used in the appraisal, an estimated dollar adjustment for the difference in condition is to be made in Item #4 of the Final Value Estimate Grid. (Revised 1-3-90, PN 125)

Example 5. Determining the estimated market value of the Subject Property "as is".

Final Value Estimate Grid

1. Estimated Market Rent of subject property being appraised.....$150
(from Example 4)
2. Gross rent multiplier.....$100
(from Example 1)
3. Indicated value of the Subject property via the.....$15,000
income approach as improved (example 4 x example 1)

4. Property Condition Adjustment.....-$2,500
(to be documented and attached)

5. Estimated value of subject property "as is".....$12,500
(Example 5, #3-#4=#5)

Note: Items 1, 2, and 5 above are to be transposed on the Indicated Value by Income Approach Section of Form RD 1922-8 "Uniform Residential Appraisal Report"

Date (date of Appraisal) Signature (signature of Appraiser)

All steps involved in the GRMA must be fully documented and attached to Form RD 1922-8 to support the "as is" estimated market value via the income approach.

The following Grids can be reproduced and utilized by FmHA Appraisers when the income approach is utilized on appraisals of nonprogram inventory property.

GRID A

GROSS RENT MULTIPLIER GRID

Comparable Property	Verified Sale Price	Verified Monthly Gross Unfurnished rent at time of sale	Indicated Gross Rent Multiplier

Mean: _____ Median:_____ Mode:_____ Range:_____.

Gross Rent Multiplier Indicated: _____

(3-31-89) SPECIAL PN

Grid B

MARKET RENT GRID

Comparable Property	Date of Sale	Monthly Rent	Carport/ Garage	Square Feet	Room Count	Other
SUBJECT	XXXXX	XXXXX				

Mean:_____ Median:_____ Mode:_____ Range:_____

Estimated Rent Indicated :_____.

Grid C

COMPARABLE RENTAL GRID

Feature	Subject	Comp Rental #1	Comp Rental #2	Comp Rental #3	Comp Rental #4
Rent	XXXXXXX				
Bathrooms					
Rm. Count					
Garage/ Carport					
Bedrooms					
Square Feet-Living					
Location					
Other					
Other					
Other					
Net Adjustment	XXXXXXXX				
Indicated Rent of Subject	XXXXXXXX				

Grid D

FINAL VALUE ESTIMATE GRID

1. Estimated Market Rent of Subject property being Appraised .....$_____

2. Gross Rent Multiplier.....$_____

3. Indicated Value of the Subject Property Via the Income Approach as Improved.....$_____

4. Property Condition Adjustment .....$_____

5. Estimated Value of Subject Property "as is".....$_____

Note: Items 1, 2, and 5 above are to be transposed on the Indicated Value by Income Approach Section of Form RD 1922-8. "Uniform Residential Appraisal Report."

DATE:_____ Signature:_____

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GUIDELINES FOR CONTRACT APPRAISALS

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GUIDELINES FOR CONTRACT APPRAISALS

Part I. General.

This exhibit provides guidance for the procurement of contract appraisal services for single family housing residential properties. Contract appraisal authorities are in RD Instruction 2024-A. (Revised 07-21-93, PN 209.)

Part II. Program Responsibilities.

A. Government Inspection of Property. In accordance with RD Instruction 2024-A, contract services shall not involve decision-making or other inherently Governmental functions. Accordingly, prior to initiating procurement action for appraisal of single family housing residential property, program personnel will conduct an on-site inspection of the dwelling and/or building site. The purpose of the inspection is to determine the following:

1. Suitability of the dwelling and/or site for retention in the program in accordance with RD Instructions 1965-C, 1955-A, and 1955-B.

2. Eligibility of the dwelling and/or site in accordance with RD Instruction 1944-A.

3. Thermal performance of the dwelling in accordance with RD Instruction 1924-A.

4. Rural area determinations in accordance with RD Instruction 1944-A.

5. Flood insurance requirements in accordance with RD Instruction 426.2.

6. Environmental program compliance in accordance with RD Instruction 1940-G.

7. Repairs necessary to insure the property meets FmHA's lending requirements. (This list of repairs will be provided to the contractor for the purpose of insuring the appraisal reflects the "as improved" value.)

B. Preparation of Procurement Request . Program personnel will prepare and submit a "Request for Contract Services for Custodial/Inventory Property or Program Services" (Form RD 1955-62) to the Contracting Officer (CO) to initiate procurement for contract appraisal services. The following provides guidance, in addition to the Forms Manual Insert for Form RD 1955-62, for the preparation of the procurement request:

1. Statement of Work . An integral part of the procurement request is the description of work requested or the Statement of Work (SOW). A sample SOW for contract appraisal services is provided in Attachment 1 to this Exhibit. Program personnel should review the requirements in the sample to insure that the work requirements are expressed in concise, accurate, and comprehensible terms. It may be necessary to modify the sample SOW to insure the final SOW addresses particular requirements and circumstances. The objective is to develop a SOW that sets forth minimum standards which will provide FmHA with a method of determining if the contractor will meet the contractual requirements.

2. Other Considerations . The following provides other requirements which should be taken into consideration in the development of the procurement request. Program personnel should discuss these considerations with the CO.

a. Government Furnished Material . The Government shall provide the following to the Contractor for use in the performance of the equirements in the SOW:

1. Legal description and/or address of the property to be appraised; list of property repairs, if appropriate; plans and specifications for new construction; and any other information necessary for the Contractor to complete the appraisal.

2. RD Form 1922-8 "Uniform Residential Appraisal Report" and Form 1007 "Square Foot Appraisal Form" to be used in the preparation of the appraisal.

3. Appropriate Rural Development and Regulations will be available for review at _____ during working hours. A copy of RD Instruction 1922-C, with Exhibits A, A-1, and B, is furnished to potential offerors.

b. Orientation Meeting . After contract award, the Contractor shall attend an orientation meeting with the Contracting Officer's Representative (COR) for the purpose of acquainting the Contractor with FmHA. The COR shall respond to questions; further amplify and clarify the appraisal process; and provide copies of appropriate FmHA regulations and procedures. It is the Contractors responsibility to be knowledgeable of FmHA procedures and policy and to insure that her/his employees are prepared and trained to perform the requirements specified in the contract on contract effective date.

c. Professional Insurance Coverage . The Contractor shall maintain professional insurance coverage in accordance with local and State government statutes.

d. Technical Considerations . Personnel proposed for work on the contract must possess demonstrated knowledge and experience in appraising single family housing residential property.

e. Progress Reports . The Contractor shall provide a written report of the status of assigned tasks to the Contracting Officer's Representative (insert report interval, i.e., weekly, bi-weekly).

f. Preparation of Proposals . To be considered for award, offerors shall submit a proposal which clearly documents the offeror's ability to accomplish the requirements in the SOW. Offerors should furnish, as a minimum, the following with their proposals:

1. A brief written summary of experience and qualifications of key person(s) or firms expected to perform the professional services specified in the SOW.

2. Provide all necessary documentation and certifications to substantiate that the offeror is licensed and/or authorized to perform residential appraisals within the area specified in the SOW.

3. At a minimum two(2) written statements of performance from individuals or firms (including FmHA, if possible) for whom the offeror has performed similar professional services. These statements shall include the name, address, and telephone number of the reference.

g. Inspection and Acceptance . The Contracting Officer or the Contracting Officer's duly authorized representative shall inspect and accept the supplies and/or services provided under this contract. No payment shall be made until the work is accepted. If deficiencies are noted in the inspection, the appraisal shall be returned to the Contractor for correction within (specify time period for correction, i.e., hours, days) at no additional cost to the Government.

The Contracting Officer's Representative shall serve as the duly authorized representative of the Contracting Officer.

Part III. Evaluation Of Offers .

There are two methods of evaluating offers: (1) Negotiated Procurement, and (2) Basis for Contract Award. The CO will consult with program personnel to: (1) Develop evaluation criteria; (2) Determine the method of evaluating offers; and (3) Perform the technical review of proposals. While cost is an important criteria in determining the best offer received, due consideration should also be given to the qualifications and experience of the offerors as it relates to the requirements specified in the SOW. The following provides additional information to be considered during this process:

A. Negotiated Procurement . Negotiated procurement is a formal evaluation process which must be used for all contracts $25,000 and over. This process involves: (1) Develop evaluation criteria and assigning weight factors; (2) Convene the technical evaluation committee to evaluate all technical proposals received; (3) Establish the competitive range; (4) Negotiate with offerors in the competitive range; (5) Receive best and final offers from offerors; (6) Evaluate best and final offers; (7) Source selection; and (8) Debrief unsuccessful offerors. The following is provided for consideration when developing evaluation criteria for appraisal services:

1. Experience and knowledge of the person(s) proposed to perform the requirements specified in the SOW.

2. Commitment of the offeror to perform the requirements specified in the SOW.

3. Technical approach of the offeror to perform the requirements specified in the SOW.

(How does the offeror plan to accomplish the requirements prescribed in the SOW? Is the offeror a designated member of an organization requiring appraisal education, testing and experience? Is the offeror experienced in conducting single family housing residential property appraisals?)

B. Basis for Contract Award . This method will be used in evaluating proposals for small purchases under $25,000 . This process accomplishes the same results as the negotiated procurement process but does not require the formal technical evaluation committee or negotiations with the offerors. The evaluation criteria provided in the formal negotiated procurement process should also provide the basis for evaluating offers for these procurements. The following is provided for consideration when developing the solicitation clause:

> The Government intends to award a contract resulting from this solicitation on the basis of price and other factors. The other factors are documented evidence of professional training, experience, and a proposal which demonstrates how the offeror will perform the requirements specified in the SOW. The Government may reject any or all offers, or award a contract on the basis of initial offers received without discussions. The Government can accept and award a contract for other than the lowest price offered. Therefore, each initial offer should provide the offeror's best price and a written proposal as outlined above.

SAMPLE
STATEMENT OF WORK FOR CONTRACT APPRAISAL SERVICES

Background. The Farmers Home Administration (FmHA) provides loans to eligible applicants for single family housing residential property.

Objective. The FmHA requires the services of qualified persons or firms to provide appraisal services for the purpose of determining the market value of single family housing residential property. The contractor shall be state certified or licensed in accordance with Title XI of the "Financial Institutions Reform, Recovery and Enforcement Act of 1989." If required, the Contractor shall defend the appraisal in court or in the FmHA appeals process. Except where noted herein, the Contractor shall provide all facilities, materials, supplies, tools, equipment, personnel, and travel to accomplish the performance of the requirements of this contract.

Scope. The Contractor shall provide appraisals for approximately _____ single family housing residential properties in _____ county(s) for a period of 12 months from the date of award. The appraisals will be used to determine the market value of single family housing residential property for loan making, servicing, acquisition, and sale. The Contractor shall be notified of required work through the issuance of a Task Order. (NOTE: THE SOLICITATION SHOULD PROVIDE SPECIFIC DETAILS REGARDING THE INFORMATION WHICH WILL BE PROVIDED IN THE TASK ORDER. FOR EXAMPLE, THE TASK ORDER SHOULD SPECIFY THE PROPERTY SUITABILITY, NEW CONSTRUCTION OR EXISTING STRUCTURE, REPAIR REQUIREMENTS (ATTACH REPAIR REQUIREMENT DEVELOPED DURING THE GOVERNMENT INSPECTION), ETC.) The required work as defined herein shall be submitted to the Contracting Officer's Representative (COR) within ___ calendar days of issuance of the Task Order. in emergency cases, a shorter time period may be required for submission of the appraisal.

Detailed Work Requirements . The Contractor shall provide appraisal services for FmHA as follows:

1. Appraisals shall be completed on Form RD 1922-8, "Uniform Residential Appraisal Report," (attached) and Form 1007, "Square Foot Appraisal Form," (Marshall and Swift) (attached), in accordance with RD Instruction 1922-C (attached), Marshall and Swift Residential Cost Handbook, and RD Forms Manual Inserts for the required forms. The appraisal shall be in typewritten or legible ink print form. (NOTE: AUTOMATION VERSIONS of Form RD 1922-8 and Form 1007, including the Marshall and Swift ON-Line Computerized Cost Data System - RE2 program (report), may be permitted with the prior approval/acceptance of the FmHA State Director.) The appraisals shall be completed giving due consideration for the following:

A. Location of property : Adhere to legal descriptions and surveys for proper location of site to avoid errors such as infringement, encroachment, etc. when appraising a property.

B. Use of comparables : Use comparable sales of single family residential properties. (NOTE: Choose one of the following to be included in the Statement of Work (SOW): THE USE OF FmHA COMPARABLE SALES IS PROHIBITED; or THE USE OF FmHA COMPARABLE SALES IS AUTHORIZED.)

C. Property improvements : In the event FmHA provides to the Contractor a list of repairs required to improve the property, these repairs shall be reflected in the appraisal process.

D. Depreciation : Adjustments to the cost approach and the sales comparison analysis that reflect a decrease in value of a structure or other improvements to the site due to physical functional and external obsolescence will be determined.

E. Approaches to property value : The market data approach (comparable sales) and the cost approach shall all be considered in reconciling the final estimate of value. The income approach may be used in conjunction with non-program property and is considered an optional approach for program property.

2. Documentation supporting the development of the appraisal shall be submitted to the COR in accordance with RD Instructions 1922-A and 1922-C.

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Single Family Housing
Residential Appraisal Reviews

The purpose of this exhibit is to provide Farmers Home Administration (FmHA) employees responsible for residential appraisal, appraisal reviews and/or residential appraisal training functions a uniform residential appraisal review format for use in the Rural Housing (RH) loan and guaranteed RH programs.

State Director's Responsibilities The State Director will designate or delegate authority to the Rural Housing Chief or Appraisal Chief to designate qualified personnel to conduct technical and field appraisal reviews. These employees, as review appraisers, must have recent relevant, documented appraisal experience or other factors which clearly establish the reviewer's qualifications. Review appraisers will achieve the equivalent education in accordance with FmHA Instruction 1922-A. The State Director will designate County Supervisors to perform administrative reviews.

Training of County Supervisors State Directors will determine and establish the training needs for County Supervisors completing administrative reviews. The State Appraisal Staff will provide training when necessary to assure adequate administrative reviews are being completed.

Types of Reviews There are three types of reviews for appraisals, namely "Administrative," "Technical" and "Field." An administrative review will always be done and a sufficient number of technical and field reviews will be completed to ensure that the Agency is getting quality appraisals from a contract or fee appraiser. An explanation of the types and frequencies of the reviews are as follows:

1. Administrative Review

An administrative review is the least detailed of the reviews and will be done on all appraisals. It is made to determine whether the appraisal presents an appropriate value for market conditions. The reviewer determines whether the appraisal is complete, the mathematics are correct, there is a proper number of current comparables, and that both the cost and comparable sales approaches were used to establish market value. Administrative reviews done by County Supervisors on Form RD 1922-15, "Administrative Appraisal Review for Single Family Housing" will be signed, dated, and forwarded to the State Appraisal Staff.
(Revised 04-06-94, PN 221.)

The administrative review is adequate inspection and recommendation for payment of the contract appraiser. This review should be completed at the earliest opportunity but must be completed within 7 days of the receipt of the contractor's invoice.

2. Technical Review

A technical review is to determine whether the appraisal made by the appraiser meets the technical requirements of the Uniform Standards of Professional Appraisal Practices (USPAP) as promulgated by the Appraisal Foundation and RD Instruction 1922-C. The reviewer must be satisfied the appraiser presented an appraisal that was complete, mathematically correct, the reasoning clear and the value conclusion supported.

Technical reviews will be done in Section A of Form RD 1922-14, "Residential Appraisal Review for Single Family Housing."

The first appraisal completed by either a contract or fee appraiser will have an initial technical review completed. Additional technical reviews may be necessary after the initial review. Such reviews will be at the discretion of the State Appraisal Staff depending on the severity of the problems encountered in the initial technical review. In addition to the initial review, technical reviews will be done in a random "spot check" method established by the State Director. The schedule of the random "spot checks" should vary annually to ensure adequate controls are established for program operations. Field offices will be advised of these schedules and all changes.

The State Director will establish the percentage of appraisals that will have technical reviews. The National Office recommends the minimum be 15 percent or more. These reviews must insure that the appraiser continue to meet the requirements of USPAP and RD Instruction 1922-C. They also provide a method of internal control for the State Appraisal Staff.

A technical review may be requested by the County Supervisor when problems are detected on the administrative review. These problems must be significant and result in an appraisal which does not support the value conclusion. County Supervisors will document the nature of their concerns utilizing Form RD 1922-15. The State Appraisal Staff will advise the County Supervisor whether to forward the appraisal to the State Office for a technical and/or field review prior to recommending payment and approval of the loan.

In accordance with RD Instruction 2024-A, Exhibit J, and the Prompt Payment Act, the invoices must be signed off within 7 days of submission by the contractor. Generally, we would expect a technical review to be completed prior to signing off on the invoice for payment for the first appraisal done by contract or fee appraisers.

3. Field Review

A field review will be completed to determine if the contract/fee appraiser has followed accepted appraisal techniques and arrived at a logical conclusion. These will be completed by the State Appraisal Staff in Section B of Form RD 1922-14. Field reviews should be completed within 30 days of the completion of the technical review. Field reviews will be done on a random "spot check" basis established by the State Director. The State Director will establish the number of field reviews to be completed by the Appraisal Staff with a suggested minimum of one field review per appraiser per year.

When an applicant appeals an appraisal, a field review, if not already completed, will be done prior to the appeal hearing.

Appraisals done by Agency transitional appraisers, will be reviewed annually, in a sufficient quantity, as determined by the State Director, to assure the internal management controls are effective and residential appraisals conform to USPAP and RD Instruction 1922-C.

The reviewer will sign and date Form RD 1922-14 and attach a photocopy of the reviewed residential appraisal forms. The reviewer's signature indicates both the appraisal and the appraisal review was conducted in accordance with USPAP and RD Instruction 1922-C for staff, contractors, and fee appraisals and/or in accordance with RD Instruction 1980-D, for guaranteed lender appraisals. The State Appraisal Staff is responsible for the overall administration of residential appraisal compliance and training within the geographic jurisdiction of the State Office. Appropriate actions will be initiated by the State Appraisal Staff to ensure compliance with USPAP, RD Instruction 1922-C and National Office policies governing the residential appraisal process.

The reviewer WILL NOT sign or date Form RD 1922-8, "Uniform Residential Appraisal Report," (and/or generic versions of the Uniform Residential Appraisal Report) on the reverse side at the "Review Appraiser" signature line.

The Rural Housing Chief and/or Appraisal Chief will maintain a record keeping system and internal management controls to assure all technical and field reviews are being accomplished in accordance with this exhibit. This should include a list of Agency contract appraisers, guaranteed lenders and their appraisers, by name and address. This listing will be used to determine the proper number of desk and field reviews were completed initially and annually.

The State Director is required to establish internal management controls and systems to document and substantiate residential appraisal compliance activities, which will be evaluated during Management Control Reviews and/or Single Family Housing program review trips. (Revised 03-10-99, PN 302.)

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